International investment positions and risk sharing: an empirical analysis on the coordinated portfolio investment survey

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Abstract

By using data from all available waves of the IMF Coordinated Portfolio Investment Surveys, we explore the dynamics of the determinants of bilateral portfolio investments. The main aim of our analysis, however, is to understand whether a diversification motive can also be found, among the various determinants. We find strong evidence that, indeed, the correlation between the idiosyncratic components of GDP growth, as well as the correlation between stock returns among pair of countries, that we consider as proxies for diversification, are relevant to explain bilateral portfolio holdings, when unobserved heterogeneity is properly taken into account, by means of a fixed effect, panel estimation (where the fixed effects refer to pair of countries, rather than countries in isolation). Interestingly, the same results cannot be obtained from cross section estimations. It also turns out that the diversification motive is less relevant, if at all, in choosing whether or not to invest in a particular area.

Keywords: Coordinated Portfolio Investment Survey, risk sharing, gravity models
JEL codes: F210, F150, F410

1 Introduction

The objective of this work is to explore the risk sharing role of cross country portfolio allocations. Applying a gravity model as in Lane and Milesi-Ferretti (2008) on data from

Coordinated Portfolio Investment Surveys by the IMF (which reports total bilateral portfolio investment assets), we investigate on whether investment decisions of source countries are inspired, among the others, by risk sharing objectives. It is often claimed that the recent surge in globalization opens up new and large opportunities for international risk sharing. The idea is that under the hypothesis of complete markets (perfect risk sharing) agents should invest in foreign countries with a negatively correlated business cycles, or in those countries whose business cycles differ in volatility[1]. That this may or may not have occurred is a largely empirical matter, and evidence is far from unambiguous. Moreover, there are two, equally interesting facets to this matter. Firstly, if countries were willing to reap all the potential benefits from financial globalization, we would expect a negative reaction of bilateral equity holdings with respect to correlations between partner countries' idiosyncratic components of GDP. In order to diversify risk, agents within a country should invest in partner countries whose idiosyncratic GDP are negatively correlated with national innovations to income, which would provide the investing country with insurance against idiosyncratic risk. Secondly, even if this were the case, it should still be checked whether or not cross-ownership of assets did bring about the desired level of income smoothing. In this work we mainly focus on the first of the two questions, as we try to understand whether or not countries invest more in other countries' assets, the less correlated their business cycle is with the partner economy. This empirical question was also dealt with in some recent papers, namely a contribution by Portes and Rey (2005) and another by Lane and Milesi-Ferretti (2008); in the former, the authors analyze bilateral portfolio equity trades in the context of a gravitational model and find weak evidence for a role of a diversification motive as an explanatory variable, and this only after controlling for informational frictions. The diversification motive is captured in their model by such variables as the correlation in economies' growth rates, stock returns and growth rates and stock returns. In Lane and Milesi-Ferretti (2008) the authors, always in the context of a gravitational model analyze bilateral portfolio equity holdings, and conclude that cross country equity holdings do not seem to be driven by diversification purposes. In order to more thoroughly explore this issue, we extend these seminal works, and especially the one by Lane and Milesi-Ferretti (2008) along several dimensions. On the one hand, we use all the available waves of the Coordinated Portfolio Investment Survey (CPIS in the sequel) to perform a repeated cross section analysis, in search for time changes in the determinants of cross ownership positions. On the other hand, we use the available data to build a panel dataset, which helps control for individual (i.e. pair of countries) unobserved heterogeneity, which might be not easily accounted for otherwise, and lead to possibly different results. That this is indeed the case will be clearly seen in section 4, where the main empirical findings will be discussed. Moreover, the explanatory variable we use to identify diversification determinants of cross ownership positions is an original one, and is derived from the decomposition of GDP growth rates in an idiosyncratic and an aggregate component, by means of a simple regression. The correlation in the idiosyncratic components of GDP

[1]Even though business cycles were perfectly synchronized is still possible to pool risk exploiting the different volatility of the business cycles.

growth will be used, along with other more standard variables, to investigate on this issue. We also deal, albeit partially, with the second question, i.e., that of understanding whether this diversification motive does bring about some benefits in the form of income smoothing. By applying the methodology introduced in the seminal paper by Asdrubali et al. (1996) we find that, indeed, those countries holding equity positions in less synchronized host economies tend to enjoy more income smoothing by foreign assets income inflows, although this evidence is not strong. Moreover, income smoothing seems to be enhanced in the face of positive, rather than negative, shocks. The rest of the paper is organized as follows. Section 2 frames our empirical question into the current literature, while section 3 presents the data and some descriptive statistics. Section 4 presents the main empirical findings, while section 5 contains some final comments. The detailed description of the variables used in the empirical analyses is relegated to the Appendix.

2 Literature review

The issue of portfolio equity investments has been dealt with, from a theoretical standpoint, from a number of perspectives: financial market incompleteness, transactional frictions in asset markets, and frictions in goods markets. All of these perspectives have in common the fact that the mutual fund separation theorem does not hold, and that one normally sees a certain amount of home bias in domestic portfolio positions. In addition, all of these theoretical models provide some insight for the construction of empirical models of portfolio equity investments. Previous empirical work has dealt with the geography of investment flows, but always with some specific limits dictated by data availability. In particular, most contributions have studied the investment positions of a single country (most often, the United States), or of very few countries. In general, most such contributions have made use of gravity models, of the kind used in international trade analysis, to analyze foreign direct investments and banking flows. For example, Wei (2000) and Stein and Daude (2007) have analyzed the geography of FDI, while Buch (2002) and Rose and Spiegel (2004) have concentrated on bank lending and borrowing. In all these papers the role of bilateral trade as a driver of investment and the role of bank lending have been singled out. There has also been a number of studies concentrating upon bilateral equity investments, such as Ahearne et al. (2004), Dahlquist et al. (2003), Yildrim (2003), mostly dealing with the case of United States, and with the issue of portfolio home bias. Two remarkable exceptions stand out in the empirical literature on this topic, i.e. the seminal works by Portes and Rey (2005) and Lane and Milesi-Ferretti (2008), which constitute the most direct benchmarks for our analysis. In the seminal paper by Portes and Rey (2005), the authors build on the theoretical work by Martin and Rey (2004), where a model of general equilibrium with endogenous asset formation leads to a gravitational model-like empirical specification for asset trades. Portes and Rey (2005) estimate a gravitational model by using a novel dataset including 14 countries, for the period 1989-1996. The work by Lane and Milesi-Ferretti (2008) applies a similar gravitational model to explain bilateral

portfolio equity holdings among a very large number of source and host countries, using data from the Coordinated Portfolio Investment Survey (CPIS), run by the International Monetary Fund. In particular, the authors use data from the second CPIS, relating to the 2001 wave of the Survey, featuring data from 67 source and 218 host countries. The analysis by Lane and Milesi-Ferretti (2008) departs from earlier contributions in several noticeable ways: by resorting to a very wide pool of source and host countries, it can provide a better identification of the potential determinants of portfolio equity investments; by developing a double fixed effects empirical specification, which consists in adding to the empirical model two sets of country dummies, respectively for source and host countries, which help in isolating the relative contribution of bilateral factors, source country factors and host country factors. In fact, by suitably controlling for source country and host country effects, the role of bilateral factors can be more properly identified. Among the other factors whose relevance was tested in their empirical work, a diversification motive was included, but the corresponding results were inconclusive. Risk sharing and home bias (and consequently portfolio investments) have recently been linked in the papers by Lewis (1999), and by Sorensen et al. (2007). Absence of international portfolio diversification and (international) risk sharing may be closely linked, as agents who diversify their portfolios internationally are more likely to obtain smoother income and consumption. Sorensen et al. (2007) find that home bias decreases while risk sharing increases during the 1990s. They measure risk sharing as the distance of consumption growth from a situation of perfect markets (perfect consumption risk sharing), and provide a measure of risk sharing income. Both these measures show improvements, which would hint at a robust and positive correlation between level of foreign portfolio assets and income risk sharing, and between foreign direct investment (FDI) and consumption risk sharing. This issue is obviously linked to another very "hot" topic in the recent literature: whether or not the surge in financial liberalization that occurred in the last two decades has effectively improved on the risk sharing opportunities available to the economies involved. The economic literature is rather divided on this issue, and the empirical evidence is quite mixed. For example, Giannone and Reichlin (2006) register an increase in risk sharing among European countries from the early 1990s when market integration significantly accelerated. They also warn, however, that estimates on selected subsamples may be affected by the subsample choice itself. Kose et al. (2008) find very weak links between financial globalization and risk sharing, over the period 1960-2004, and for the two subsamples 1960-1986 (pre-globalization) and 1987-2004 (globalization). In particular, they find that if globalization does not seem to have exerted any significant impact on risk sharing for the whole sample of countries and the whole period, it has played a negative impact on risk sharing for emerging economies. However, on the shorter globalization sample, only developed countries seem to have reaped some benefits from financial globalization in term of risk sharing, whereas the subset of emerging economies does not seem to have been affected, at least in a statistically significant way. On the other hand, Kose et al. (2006) noticed that financial openness, as measured by gross capital flows as a ratio to GDP, is associated with an increase in the ratio of consumption volatility to income volatility, contrary to the notions of improved international risk-sharing opportunities through financial integration. Kaminsky et al. (2005) investi-

gate over the relationship of net income flows and GDP, and find that net capital flows are procyclical in most OECD and developing countries, i.e. countries tend to borrow in good times and repay in bad times. On the other hand, Bai and Zhang (2004) conduct a regression analysis (both panel and cross section) dividing their whole sample (1973-1998) in two distinct sub-samples (1973-1985; 1986-1998) and conducting separate tests for 19 developed countries, for 21 developing countries and for the whole set of countries. Their study shows that, although the degree of financial integration doubles from the first to the second sub-period, there is no substantial improvement in international risk sharing. Moreover, they claim that international risk sharing is not sensitive to the increase in financial integration. That the need or possibility for diversification of idiosyncratic risks may also be a determinant for bilateral portfolio positions has surfaced in other recent contributions, but only very few have attempted to perform an empirical verification. An interesting work, in this field, is that by Bracke and Schmitz (2008), trying to understand whether portfolio equity investments play a role in consumption risk sharing both via net investment income and via capital gains. To do so, they analyze a dataset comprising 35 industrial and emerging market economies. In this paper, as anticipated in the introduction, we intend to take one step forward, to explicitly introduce a proxy for the diversification motive in a gravity model for bilateral portfolio investments.

3 Data

Data on bilateral equity holdings for years 2001 up to 2009 come from several waves of the Coordinated Portfolio Investment Survey (CPIS) by the International Monetary Fund (IMF). For comparative purposes we included 67 source[2] countries and 218 host countries[3] as in Lane and Milesi-Ferretti (2008). Original data are expressed in current US dollars. As we are interested in the real dynamics of cross country holdings (actual purchases or sales of assets over time), and since the overall dynamics in the value of asset holdings may also originate from a different valuation of the same positions (both because of changes in asset prices and in relative exchange rates), we had to compensate for the latter source of changes. Therefore, in order to run bona fide longitudinal analyses, data on equity holdings have been deflated by using a Morgan Stanley Capital International (MSCI) price index (period average, base year 2001). Likewise, the value of equity holdings of each given country has been adjusted to account for exchange rate fluctuations by using an index number of bilateral exchange rate between US dollars and the currency of the host country (base year 2001). Analogously, bilateral trade across countries has been adjusted for exchange rate fluctuations. As a result of all these adjustments, equity values are expressed in 2001 current US dollars, at 2001 stock prices. Covariates have been computed following

[2]See appendix A for a complete list of source and host countries included in the analysis.

[3]Source refers to countries undertaking an investment, i.e. purchasing equities in a foreign country, while hosts refers to countries receiving the investment.

Lane and Milesi-Ferretti (2008).[4] In tables 1, 2 and 3 we report percentage shares and the growth rates of bilateral equity asset holdings (unweighted and weighted[5]) aggregating over 6 major areas. Data are, as explained in the previous section, in "constant, 2001, terms" since they are adjusted for exchange rate fluctuations and for valuation effects. Offshore centers have been removed, to avoid distortions. Thus, statistics in table 1, 2 and 3 refer to the dependent variable entering our regression analysis. Over the period 2001-2009 the weight of OECD countries is still dominant, since around 74 percent of the total amount of equity asset holding is due to U.S., UK and Euro Area; however, their role is becoming less important over the observed period of time. In particular, the U.S. and the Euro Area lost respectively about 5 and 2.5 percent of their shares, while UK lost just 0.9 percent. On the contrary, Japan gained one percentage point, other OECD countries and Emerging markets registered a remarkable increase of their weight of around 4 percent. A quick look at unweighted rates of growth of equity asset holdings reveals how Emerging markets quadrupled their international portfolio size, "other OECD countries" and Japan doubled, whereas U.S., UK and the Euro Area have been growing below the average, increasing their equity assets positions by around 50 percent. If we now look at weighted rates of growth (by the corresponding percentage shares of the total, reported in table 3), about half of the increase in total investment can be attributed to emerging markets and to "other OECD countries". To sum up, total growth of equity asset holdings amounts to 76.2 percent and the increasing role of emerging economies and the attractiveness of U.S. and European markets for these countries become quite evident. Moreover, the persistence of bilateral investment patterns decreased somehow over the whole time horizon in comparison to what detected by Lane and Milesi-Ferretti (2008) between 2001 and 2005.[6]It seems fair to say that, looking at data, there is some evidence of an ongoing change of the international investment patterns, calling for a further investigation over the entire available time horizon.

4 Empirical findings

This section describes the results for cross-section and panel analyses. Cross section analyses have been conducted, as in Lane and Milesi-Ferretti (2008), controlling for countries' characteristics by the inclusion of "double fixed effects" for source and host countries, whereas our panel analysis includes individual fixed effects for each pair of source-host countries, which is less restrictive and allows controlling for specific "pair" effects. The combination of any two countries, in fact, might be influenced by a fixed factor which is potentially different from the combination of the two individual countries effects. Following

[4]For a detailed description of data see appendix B.

[5]By period average shares.

[6]If one regresses, as in Lane and Milesi-Ferretti (2008), the log of equity positions in 2001 on the log of equity positions in 2005, one obtains an elasticity of 0.84, while the same exercise between 2001 and 2009 yields an elasticity of about 0.73.

Lane and Milesi-Ferretti (2008), the estimated model for cross section analyses is:

$$\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij} \tag{1}$$

where x_{ij} is the portfolio equity holdings of country i in country j; Z_{ij} is a vector of covariates; ϕ_i and ϕ_j are dummy variables for source and host countries, respectively. This model includes a dummy variable for each source and each host country, so that the constant is given by the sum of ϕ_i and ϕ_j, capturing individual heterogeneity of countries i and j. The strength and the novelty of this approach is that it allows exploiting the bilateral dimension of the data to take into account nationals' characteristics. However, once we have several cross sections, corresponding to various time periods, the time dimension can also be used, allowing for the inclusion of proper individual fixed effects, where by individuals we mean source-host pairs of countries. The inclusion of "pairs fixed effects" allows to capture that heterogeneity which characterizes any bilateral portfolio equity allocations. This is more general than in the cross section estimation, imposing each country's fixed effect to be identical irrespective of the partner country (host or source). In terms of number of dummy variables to be estimated, in the more restrictive model a total of i+j individual dummies is to be estimated, while in the panel estimation $i \cdot j$ individual fixed effects are included. Therefore, for the panel analysis we adopt the following fixed effects model specification:

$$\log(x_{ijt}) = \phi_{ij} + \nu_t + \beta Z_{ijt} + \epsilon_{ijt} \tag{2}$$

where ϕ_{ij} are individual intercepts and ν_t are time fixed effects.

4.1 Cross section analysis

For comparative purposes, the first step of our analysis consists in replicating the empirical evidence offered by Lane and Milesi-Ferretti (2008) for the year 2001 and its extension for the whole available sampling period, i.e. 2002-2009, in order to assess possible changes over time in the determinants of international asset allocation choices of responding countries (results available upon request). The estimation results, presented in tables 5-12 essentially confirm those presented in Lane and Milesi-Ferretti (2008): throughout the years, bilateral trade is the single most important explanatory variable of cross country portfolio holdings, though its relevance is much weakened in the Tobit estimation. Other variables proxying for information asymmetries and sociocultural proximity are more or less significant in explaining portfolio holdings, over the years: the logarithm of distance, of time difference, and various dummies for common language, ex colonial past, for being party in a tax treaty, or in a currency union. The variables used to identify a diversification motive for portfolio cross holdings are often significant, but with the "wrong", positive, sign. Their estimated coefficients seem to indicate that agents hold portfolios in countries which are rather similar, in terms of business cycle dynamics and stock markets. We also introduced some additional explanatory variables. In particular, we replaced the variable expressing the correlation between GDP growths with a different one, containing the correlation among

the idiosyncratic components of GDP growth. Details about the computation of this variable can be found in the data appendix. The estimated coefficient of this variable is also positive, and does not bring new elements into the picture. One more explanatory variable is worth mentioning, the overall score of freedom in the host country, produced by The Heritage Foundation[7]. It always enters with a positive and significant coefficient across all estimation periods for the full sample and the OECD set, while it gains importance and significance for emerging economies as we move towards the end of the time horizon (2009, though, seems to be an exception). Tables 13-15 give an idea of the variability across years of estimated coefficients of just one particular specification of equation (1), namely the specification reported in columns (1) of tables 4-12; a cursory reading of these tables show that, for the whole sample of countries, the coefficients of the most important explanatory variable, bilateral trade, increases in magnitude over the whole sample, though non monotonically. The relevance of the other significant variables, i.e. time difference, common language, colonial past, common legal origin and the overall score of freedom in the host country, significantly varies across periods, but at the end of the time horizon is not very different from what it was at the beginning. As for the OECD countries, the relevance of the bilateral trade has an opposite behavior (i.e. decreases over time). The estimated models for the emerging countries are the ones yielding the less satisfactory results, with many explanatory variables being only occasionally significant.

4.2 Panel analysis

The estimation results change in a remarkable way as we move to a proper panel estimation. As is well known, in the context of panel estimations it is possible to properly assess the relevance of fixed effects, i.e. the impact of factors which are peculiar to the individual observations. In our case each observation concerns a pair (source-host) of countries, and the fixed effect refers to some factor which plays a role for this couple, but not necessarily for each economy in isolation. Therefore, any fixed effect is likely to capture the (possibly stable) effect of variables which are relevant for the interaction of those economies, and which cannot be observed or are difficult to quantify. It is highly plausible that such unaccounted for factors be somehow correlated with our proxies for diversification motives (correlations between stock market returns, or correlation between idiosyncratic components of GDP). This unobserved factors may then have an impact on the sign and significance of the estimated coefficients of the latter, if the former become part of the disturbance term, as is likely to be the case in purely cross sectional estimations. As already hinted at above, simple source and host country effects, which were included in the cross sectional estimations, may not adequately account for such factors. We report in table 16 panel estimates over the period 2001-2009 for the whole sample and the two subsamples (OECD countries and Emerging economies). We may immediately observe that, as this specification includes both period and cross section fixed effects, all the variables not (sufficiently) changing over time cannot be included, their effect being

[7] http://www.heritage.org/

somehow summarized in the cross section fixed effects. While the effect of bilateral trade is almost always strong and positive, and the overall level of freedom in the host country is always positively significant, as it was the case in the cross section and pooled cross section estimations, our original research question receives a more clear cut answer. In almost all model specifications both the correlation between the idiosyncratic components of GDP and the correlation in stock returns turned out to be significantly negative. Interestingly, even in the face of a positive correlation between the two variables, they are both significant, suggesting that the comovements between the idiosyncratic components of GDP are significant even if one controls for the correlation between stock returns in two economies. This is true both for the linear specifications and for the non linear, Tobit specification (but only for the correlation in the idiosyncratic components of GDP). When we look at the results for the two subsamples, however, the diversification motive is supported by the linear specification, but not by the Tobit model. This suggests that the decision to engage in portfolio investments, and that of investing more or less, might have different determinants relative to the subsamples. In particular, it seems that the former depends more on the closeness and similarity of the pair of economies, although it may well be the case that once the decision to open a position in a country is taken, the investment size may also be determined by diversification motives. This is confirmed by the regression results of the corresponding probit models (column 6 of table 16), where one of the diversification variables, namely the correlation in stock returns, has a positive and significant coefficient. We get a different result with the tax treaty variable. The fact that a pair of countries are taking part in a tax treaty appears to be significant in determining the choice of investing, but not to have an impact upon the relative dimension of portfolio investments. That diversification may have opposite effects on the choice of investing and on the corresponding amounts is somehow reminiscent of the discussion of the empirical results in Portes and Rey (2005), where the authors observe that the variables proxying for a diversification motive enter with a positive sign if they do not control for information frictions (above all, distance), whereas the sign becomes (weakly) negative when such factors are controlled for. In our panel estimations information frictions should be captured by the pair fixed effects, and the larger dataset (and possibly the different estimation horizon) allows us to better identify a diversification motive at work.

4.3 Business cycle desynchronization and risk sharing

In the previous paragraphs we found that the correlation between the idiosyncratic components of GDP growth plays a non negligible role in driving the cross-border allocation of investments in the global stock market. On the other hand, the existence of differences among national business cycles opens the way to insurance possibilities which can be exploited to reduce the longitudinal variance of national income, thus increasing national welfares. Up to this point we have been able to identify a diversification motive as a determinant of portfolio choices. However, this does not necessarily entail that portfolio allocations have been effective in insuring countries against bad states of nature. Therefore, as the last step of our analysis, we measure the degree of risk sharing achieved through

equity purchases on foreign stock markets. Foreign equities held by residents generate an income that adds to their disposable income and is recorded in the current account of the balance of payments. It is therefore possible to assess the degree of income smoothing brought about by the holding of foreign equities (for a detailed explanation of the methodology see Appendix C). The analysis has been conducted separately for the set of countries adhering to the European Monetary Union (EMU) and for the set of OECD countries. As a first step we have computed a measure of lack of (potentially exploitable) risk sharing opportunities, given by the (weighted) mean correlation of idiosyncratic GDP growth of a given source country with idiosyncratic GDP growth of all its host countries. Next, we have computed, for each country of the group, the degree of risk sharing achieved through foreign equity holdings, by using the methodology illustrated in Appendix C. Table 17 contains the values taken by these two variables for the various countries, as well as various indices of correlations between them. All in all, if we consider all (positive and negative) shocks, our priors are weakly confirmed in the case of EMU countries (significance values of correlations in the range 0.20-0.25), while they should be strongly rejected for the set of OECD countries. Notwithstanding, if we distinguish among positive and negative shocks, we obtain a somewhat neater picture. Indeed, for EMU countries correlations are strongly significant (significance values in the range 0.01-0.02) in the case of positive shocks, while they are not significant at all in the case of negative shocks. In other words, equity holdings in less "synchronized" economies help smooth income peaks associated to good states of nature, while they do not seem effective in smoothing income troughs experienced during bad states of nature. However, by directly looking at the values of mean correlations and percentages of income smoothing for the various countries we realize that, despite a non significant negative correlation, the widest percentages of income smoothing in the face of negative shocks via portfolio equity holdings are obtained by those countries featuring a low (under 0.20) mean correlation in the dynamics of idiosyncratic GDP growth.

5 Conclusions

The recent surge in financial globalization opened up many investment opportunities for the countries involved. One possible outcome of this process is an increase in portfolio diversification, if bilateral holdings are also driven by diversification motives. Whether or not this has been the case is the research question addressed in this paper, where we extend the analysis proposed by Lane and Milesi-Ferretti (2008) to all available waves of the IMF Coordinated Investment Portfolio Survey; this question is addressed by means of both cross section and panel methodologies. The main empirical result of our analysis is that, indeed, a diversification motive emerges from the data, which mainly concerns the relative size of portfolio holdings. It also turns out, however, that the decision to open portfolio positions in a country depends more on symmetries, rather than differences, in the two countries' cycles.

6 Appendix A

List of source countries excluding offshore centers:
Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Colombia, Costa Rica, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Korea (Republic of), Malaysia, Netherlands, New Zealand, Norway, Panama, Philippines, Poland, Portugal, Romania, Russian Federation, Singapore, Slovak Republic, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, United States, Uruguay, Venezuela.
List of host countries excluding offshore centers:
Albania, Algeria, American Samoa, Angola, Argentina, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Brunei Darussalam, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Canada, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Congo (Democratic Republic of), Congo (Republic of), Costa Rica, Côte d'Ivoire, Croatia, Czech Republic, Denmark, Djibouti, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Estonia, Ethiopia, Faroe Islands, Fiji, Finland, France, French Guiana, French Polynesia, French Southern Territories, Gabon, Gambia, Georgia, Germany, Ghana, Greece, Greenland, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Iran, Iraq, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kiribati, Korea (Democratic People's Republic of), Korea (Republic of), Kuwait, Kyrgyz Republic, Lao, Latvia, Lesotho, Liberia, Libya, Lithuania, Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Mauritania, Mexico, Micronesia, Moldova, Mongolia, Montserrat, Morocco, Mozambique, Myanmar, Namibia, Nepal, Netherlands, New Caledonia, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Russian Federation, Rwanda, San Marino, São Tomè and Prìncipe, Saudi Arabia, Senegal, Sierra Leone, Singapore, Slovak Republic, Slovenia, Solomon Islands, Somalia, South Africa, Spain, Sri Lanka, St. Helena, Sudan, Suriname, Swaziland, Sweden, Switzerland, Syria, Taiwan, Tajikistan, Tanzania, Thailand, Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Tuvalu, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States, United States Minor Outlying Islands, Uruguay, Uzbekistan, Vatican City State, Venezuela, Vietnam, Virgin Islands (United States), Wallis and Futuna Islands, West Bank and Gaza Strip, Yemen, Zambia, Zimbabwe.

7 Appendix B

Bilateral portfolio equity holdings:
millions of U.S. dollar of portfolio equity holdings issued by host countries and held by source country. Source 2001-2009 Coordinated Portfolio Investment Survey.

Bilateral trade:
five-year backward looking moving average of imports plus exports over the period 2001-2009. Source: United Nations Commodity Trade Statistics Database.
Colony Dummy:
dummy taking the value 1 if source and host country ever had a colonial relationship and zero otherwise. Source Rose and Spiegel (2004).
Common Language:
dummy variable taking value 1 if host and source countries share the same language and zero otherwise. Source: Rose and Spiegel (2004) and Lane and Milesi-Ferretti (2008).
Common Legal Origin:
dummy variable taking the value 1 if the source and and host countries have a legal system with a common origin (common law, French, German or Scandinavian) and 0 otherwise. Source: Porta et al. (2005) and Lane and Milesi-Ferretti (2008).
Correlation between growth-stock returns:
twenty one-year backward looking moving average correlation between annual GDP growth rates in the source country and real stock returns in the host country over the period 2001-2009. For the IV estimation the aforementioned backward looking moving average has been restricted to just ten years. Source: authors' calculation based on Morgan Stanley Capital International (Datastream) and World Bank (on-line database World Development Indicators).
Correlation in GDP growth rates:
twenty one-year backward looking moving average correlation between the annual GDP growth rate of source and host countries over the period 2001-2009. For the IV estimation the aforementioned backward looking moving average has been restricted to just ten years. Source: authors' calculation based on World Bank (on-line database: World Development Indicators).
Correlation in idiosyncratic GDP:
twenty one-year backward looking moving average correlation between the annual idiosyncratic GDP growth rate of source and host countries over the period 2001-2009. For the IV estimation the aforementioned backward looking moving average has been restricted to just ten years. The idiosyncratic component of GDP growth is computed as the estimated residuals of the following regression $\Delta \log(GDP_{it}) = \beta \Delta \log(GDP_{at}) + \epsilon_{it}$. Where $\Delta \log(GDP_{it})$ is the country i GDP rate of growth and $\Delta \log(GDP_{at})$ represents the average rate of growth of the reference group (in our case: all countries; OECD countries and Emerging Markets). The GDP growth rate of a given country is therefore decomposed in two orthogonal components: in fact, $\Delta \log(GDP_{it}) = \widehat{\beta} \Delta \log(GDP_{at}) + e_{it}$, thus the idiosyncratic GDP growth will be orthogonal to the aggregate (group average) GDP growth by construction: $e_{it} \perp \widehat{\beta} \Delta \log(GDP_{at})$. The more standard practice (e.g. Asdrubali et al. (1996)) consists in simply subtracting the group average GDP growth to each country' s GDP rate of growth. However, this practice does not guarantee orthogonality between aggregate and idiosyncratic GDP growth and may generate serious omitted variable bias if one of the regressors strongly correlates with the aggregate GDP growth. Moreover the

standard decomposition restricts the coefficient attached to aggregate GDP to be equal to 1, while the empirical evidence contradicts this assumption.

Correlation in stock returns:
eleven-year backward looking moving average correlation between the monthly stock market returns of the host and source country, expressed in U.S. dollars over the period 2001-2009. For the IV estimation the aforementioned backward looking moving average has been restricted to just five years. Source: authors' calculations based on returns data from Morgan Stanley Capital International (Datastream).

Currency Union Dummy:
dummy variable taking value 1 if source and host countries are in a currency union and zero otherwise. Source Lane and Milesi-Ferretti (2008) and Rose and Spiegel (2004)

Log distance:
logarithm of Great Circle distance in miles between the capital cities of source and host country. Source: Rose and Spiegel (2004).

Overall score of freedom in the host country:
overall freedom score ranging from zero to 100 given by the average of ten component scores: business freedom; trade freedom; fiscal freedom; Government spending; monetary freedom; investment freedom; financial freedom; property rights; freedom from corruption; labour freedom. All 10 components are weighted equally. Source The Heritage Foundation (http://www.heritage.org/)

Tax Treaty:
dummy variable taking value 1 if source and host countries enacted a double taxation agreement prior to 1999. Agreements considered are: Capital, Income and Capital, Income and Inheritance. Double taxation agreements on Air, Land and Sea Transport have been excluded. Source: Authors' elaborations on DTT (Double Taxation Treaties) database from www.unctad.org.

Time Difference:
absolute value of of time difference between host and source country (from 1 to 12). Source: Lane and Milesi-Ferretti (2008) and Rose and Spiegel (2004)

8 Appendix C

In the analysis reported in table (17), applying a time series counterpart of the variance decomposition first introduced by Asdrubali et al. (1996), we computed the percentage of risk sharing achieved through financial asset income inflows (sub-component of the factor income) as in Balli et al. (2011). Thus, for each country of the two groups considered (OECD and EMU countries), we estimated the following equation obtaining the percentage of income smoothing achieved by income inflows deriving from financial assets holding by each single country.

$$\Delta \log \widetilde{GDPIN}_t = \beta_f^+ \Delta \log \widetilde{GDP}_t + \epsilon_t$$

where:

$GDPIN_t$ = (GDP+financial assets income inflows);
$\Delta \log \widetilde{GDPIN}_t = (\Delta \log GDPIN_t - \Delta \log GDPIN_t^a)$;
$\Delta \log \widetilde{GDP}_t = (\Delta \log GDP_t - \Delta \log GDP_t^a)$;
$\Delta \log GDPIN_t^a$ and $\Delta \log GDP_t^a$ are group averages. $1 - \beta_f^+$ is the percentage of income smoothing achieved through the portfolio equity holdings channel (inflows). We then distinguished between positive and negative idiosyncratic shocks, identifying positive shocks as those corresponding to periods of positive output gap[8]. This allows to estimate the smoothing role of assets income inflows in the face of asymmetries in shocks.

$$\Delta \log \widetilde{GDPIN}_t = \beta_{f1}^+ \Delta \log \widetilde{GDP}_t^{\ +} + \beta_{f2}^+ \Delta \log \widetilde{GDP}_t^{\ -} + \epsilon_t$$

where $1 - \beta_{f1}^+$ is the percentage of risk sharing with respect to positive shocks, while $1 - \beta_{f2}^+$ is the same measure in response to negative shocks. The data span is from 1980 to 2009 (annual frequency). Source: International Monetary Fund (Balance of Payments Statistics).

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List of Tables

Table 1: International Equity Asset Holdings
(% shares over the year-total)

Source / Host	Usa	Uk	Euro	Japan	Other OECD	Emerging markets	Total
				2001-2009			
United States	0.0	7.3	9.4	5.7	5.4	5.5	33.4
United Kingdom	4.7	0.0	3.7	1.6	1.0	1.4	12.5
Euro area	9.2	3.8	9.9	1.5	1.7	1.1	27.3
Japan	3.5	0.6	0.8	0.0	0.4	0.3	5.6
Other OECD Countries	8.9	1.8	3.1	1.2	1.0	0.7	16.7
Emerging markets	1.4	1.2	0.4	0.2	0.1	1.2	4.5
Total	27.8	14.7	27.3	10.3	9.6	10.3	100.0
				2001			
United States	-	8.8	11.5	4.3	6.2	5.0	35.7
United Kingdom	3.2	-	5.6	1.3	1.4	1.3	12.9
Euro area	8.1	4.2	11.2	1.1	2.2	1.1	27.9
Japan	3.1	0.7	0.9	-	0.4	0.2	5.3
Other OECD Countries	7.2	1.8	3.5	0.9	1.0	0.7	15.2
Emerging markets	0.8	1.1	0.2	0.1	0.1	0.7	3.0
Total	22.4	16.6	32.9	7.7	11.3	9.1	100.0
				2002			
United States	-	8.2	10.6	4.9	6.1	4.7	34.5
United Kingdom	4.0	-	4.4	1.6	1.5	1.4	12.8
Euro area	8.2	4.5	11.2	1.3	2.2	0.9	28.3
Japan	3.2	0.7	0.9	-	0.4	0.2	5.4
Other OECD Countries	7.8	1.9	3.3	1.1	1.1	0.6	15.8
Emerging markets	0.8	1.1	0.4	0.1	0.1	0.7	3.1
Total	24.0	16.4	30.7	9.0	11.4	8.4	100.0
				2003			
United States	-	8.1	10.0	5.6	5.9	5.6	35.3
United Kingdom	3.9	-	3.6	1.6	1.0	1.5	11.5
Euro area	9.1	4.1	11.3	1.6	1.9	1.2	29.0
Japan	3.2	0.6	0.8	-	0.3	0.2	5.2
Other OECD Countries	7.9	1.8	3.3	1.1	0.9	0.7	15.8
Emerging Countries	0.8	1.1	0.3	0.2	0.1	0.8	3.2
Total	24.9	15.7	29.3	10.0	10.2	10.0	100.0
				2004			
United States	-	6.8	10.1	5.6	5.5	5.5	33.4
United Kingdom	4.5	-	4.2	1.6	0.8	1.6	12.7
Euro area	9.6	3.7	11.0	1.7	1.7	1.1	28.8
Japan	3.7	0.7	0.8	-	0.4	0.3	5.8
Other OECD Countries	8.4	1.6	3.1	1.1	0.8	0.7	15.8
Emerging markets	1.0	1.2	0.2	0.2	0.1	0.9	3.6
Total	27.1	14.0	29.4	10.2	9.3	10.0	100.0
				2005			
United States	-	6.7	9.3	7.3	5.5	5.8	34.7
United Kingdom	5.0	-	3.5	2.1	1.0	1.4	13.1
Euro area	9.4	3.5	9.7	2.0	1.7	1.2	27.4
Japan	3.6	0.5	0.7	-	0.3	0.3	5.4
Other OECD Countries	8.3	1.6	2.8	1.4	0.8	0.6	15.5
Emerging markets	1.1	1.2	0.3	0.2	0.1	1.1	3.9
Total	27.3	13.5	26.4	13.1	9.3	10.4	100.0
				2006			
United States	-	6.5	9.3	6.2	5.1	6.0	33.1
United Kingdom	5.4	-	3.3	1.9	0.9	1.4	13.0
Euro area	10.0	3.6	9.9	2.0	1.6	1.3	28.5
Japan	3.4	0.5	0.7	-	0.3	0.4	5.3
Other OECD Countries	8.4	1.6	2.9	1.2	0.9	0.8	15.8
Emerging markets	1.4	0.9	0.3	0.2	0.1	1.5	4.3
Total	28.7	13.1	26.4	11.5	8.9	11.4	100.0
				2007			
United States	-	6.0	9.0	6.5	5.1	6.3	32.9
United Kingdom	5.4	-	2.8	1.8	0.8	1.5	12.4
Euro area	9.8	3.2	8.5	1.8	1.5	1.4	26.1
Japan	3.3	0.4	0.7	-	0.3	0.4	5.2
Other OECD Countries	9.9	1.6	3.1	1.4	0.9	0.9	17.8
Emerging markets	1.9	0.9	0.4	0.3	0.1	1.8	5.6
Total	30.4	12.1	24.4	11.9	8.8	12.4	100.0
				2008			
United States	-	6.4	7.9	6.8	4.7	5.0	30.8
United Kingdom	5.9	-	2.9	1.6	0.7	1.2	12.2
Euro area	10.1	3.4	8.1	0.9	1.4	0.8	24.7
Japan	4.2	0.6	0.7	-	0.3	0.4	6.2
Other OECD Countries	11.3	2.0	2.9	1.5	1.0	0.8	19.5
Emerging markets	2.5	1.4	0.4	0.5	0.1	1.7	6.6
Total	34.0	13.8	22.8	11.3	8.2	9.8	100.0
				2009			
United States	-	8.2	7.4	4.3	4.9	5.8	30.6
United Kingdom	5.3	-	3.1	1.3	1.1	1.2	12.0
Euro area	8.9	3.9	8.4	0.9	1.3	1.3	24.7
Japan	4.1	0.7	0.7	-	0.4	0.4	6.3
Other OECD Countries	10.5	2.6	3.1	1.1	1.2	0.9	19.5
Emerging markets	2.4	2.0	0.7	0.3	0.1	1.4	6.9
Total	31.3	17.5	23.4	7.9	9.0	11.0	100.0

Table 2: International Equity Asset Holdings
(annual % changes unweighted)

Source / Host	Usa	Uk	Euro	Japan	Other OECD	Emerging markets	Total
				2001/2009, total change			
United States	-	65.5	12.6	76.7	40.1	103.8	50.8
United Kingdom	189.5	-	-3.2	70.3	41.8	58.3	63.8
Euro area	95.5	63.8	32.2	44.9	1.4	93.3	55.8
Japan	132.7	68.1	51.9	-	82.2	228.4	110.9
Other OECD Countries	155.7	152.8	57.0	115.7	108.5	130.8	125.8
Emerging markets	430.2	234.0	421.7	385.9	107.7	274.2	312.3
Total	145.6	85.4	25.2	79.6	40.8	113.5	76.2
				2001/2002			
United States	-	-4.7	-6.1	17.3	1.4	-4.3	-1.4
United Kingdom	25.5	-	-19.6	21.8	8.6	3.4	1.4
Euro area	3.8	8.7	2.4	18.1	1.1	-21.2	3.3
Japan	6.3	-0.2	2.4	-	5.9	-8.1	4.1
Other OECD Countries	10.3	6.6	-5.6	21.8	7.4	-8.4	5.8
Emerging markets	-4.8	6.2	53.7	42.4	1.5	1.9	7.1
Total	9.1	0.8	-4.8	19.0	2.9	-5.3	1.9
				2002/2003			
United States	-	32.6	27.5	53.4	30.4	60.9	37.4
United Kingdom	32.6	-	7.6	33.7	-9.9	47.0	20.7
Euro area	49.2	21.2	35.8	59.7	12.8	77.7	38.0
Japan	34.4	17.5	20.4	-	15.5	59.5	29.5
Other OECD Countries	35.4	26.0	37.2	40.2	19.1	55.3	34.6
Emerging markets	40.3	36.2	10.2	45.0	1.0	59.0	38.5
Total	39.7	28.3	28.3	49.2	19.9	59.8	34.6
				2003/2004			
United States	-	-22.8	-7.9	-8.0	-15.1	-10.1	-12.9
United Kingdom	5.0	-	8.3	-7.3	-25.7	0.6	1.1
Euro area	-3.2	-15.4	-10.6	0.7	-14.6	-13.7	-8.7
Japan	5.6	-4.4	-3.7	-	0.1	20.6	3.3
Other OECD Countries	-2.6	-15.3	-13.2	-6.4	-17.7	-15.7	-8.0
Emerging markets	16.1	-1.0	-23.3	1.1	-7.3	3.4	2.2
Total	0.0	-17.7	-7.6	-6.2	-15.7	-7.5	-8.0
				2004/2005			
United States	-	5.4	-1.8	39.0	5.7	13.4	10.3
United Kingdom	18.3	-	-10.0	43.2	29.5	-6.8	9.6
Euro area	4.4	-0.9	-6.3	26.5	1.8	11.4	1.1
Japan	2.2	-19.9	-2.5	-	0.6	-1.7	-1.2
Other OECD Countries	5.0	5.8	-5.2	28.9	2.2	3.7	4.6
Emerging markets	15.5	3.9	23.5	48.2	-12.1	31.9	17.3
Total	7.0	2.5	-4.8	36.6	6.4	10.5	6.2
				2005/2006			
United States	-	6.9	11.0	-6.8	2.7	14.2	5.7
United Kingdom	20.5	-	3.7	0.1	4.3	10.9	10.4
Euro area	18.1	14.4	13.5	8.7	8.0	25.4	15.0
Japan	7.0	12.5	6.7	-	5.8	41.4	9.2
Other OECD Countries	12.6	10.3	13.3	-0.1	21.6	34.6	12.7
Emerging markets	39.9	-16.4	10.6	-14.3	35.0	48.9	20.3
Total	16.3	7.5	11.1	-2.7	5.8	20.7	10.7
				2006/2007			
United States	-	-17.1	-12.8	-4.5	-9.0	-5.5	-10.2
United Kingdom	-9.5	-	-23.6	-15.3	-19.0	-2.2	-13.8
Euro area	-11.6	-20.7	-22.9	-19.0	-17.2	-1.8	-17.1
Japan	-12.3	-20.7	-15.4	-	-12.8	10.6	-12.0
Other OECD Countries	6.6	-8.5	-4.0	3.3	-6.4	0.8	1.9
Emerging markets	29.8	-5.1	38.3	70.3	53.5	7.8	17.6
Total	-4.0	-16.4	-16.5	-6.8	-10.9	-2.0	-9.6
				2007/2008			
United States	-	-26.2	-39.8	-28.6	-36.6	-45.3	-35.7
United Kingdom	-26.0	-	-30.2	-38.6	-38.4	-47.1	-32.2
Euro area	-29.1	-25.4	-34.5	-64.2	-37.2	-63.3	-35.1
Japan	-13.6	-6.2	-30.0	-	-29.6	-42.8	-18.5
Other OECD Countries	-21.6	-16.3	-35.1	-24.7	-27.8	-38.5	-24.8
Emerging markets	-12.6	4.5	-33.6	-8.0	-28.5	-33.9	-18.3
Total	-23.3	-21.6	-35.9	-34.4	-35.6	-45.4	-31.3
				2008/2009			
United States	-	145.9	78.5	21.0	98.9	120.0	89.8
United Kingdom	73.6	-	107.2	51.2	189.9	93.5	87.4
Euro area	68.7	119.3	97.9	91.3	82.1	218.2	91.5
Japan	86.0	123.9	107.8	-	128.0	111.4	95.8
Other OECD Countries	77.6	148.6	108.5	34.7	135.8	122.6	90.8
Emerging markets	86.6	170.9	219.7	17.0	67.7	59.7	100.7
Total	76.0	141.3	96.2	32.8	109.4	113.7	91.2

Table 3: International Equity Asset Holdings
(annual % changes weighted by the share)

Source / Host	Usa	Uk	Euro	Japan	Other OECD	Emerging markets	Total
				2001/2009			
United States	-	5.7	1.4	3.3	2.5	5.2	18.1
United Kingdom	6.1	-	-0.2	0.9	0.6	0.8	8.2
Euro area	7.7	2.7	3.6	0.5	0.0	1.1	15.6
Japan	4.1	0.5	0.4	-	0.3	0.5	5.9
Other OECD Countries	11.3	2.8	2.0	1.0	1.1	0.9	19.1
Emerging Countries	3.5	2.5	1.0	0.4	0.1	1.8	9.3
Total	32.7	14.2	8.3	6.1	4.6	10.3	76.2
				2001/2002			
United States	-	-0.4	-0.7	0.7	0.1	-0.2	-0.5
United Kingdom	0.8	-	-1.1	0.3	0.1	0.0	0.2
Euro area	0.3	0.4	0.3	0.2	0.0	-0.2	0.9
Japan	0.2	0.0	0.0	-	0.0	0.0	0.2
Other OECD Countries	0.7	0.1	-0.2	0.2	0.1	-0.1	0.9
Emerging Countries	0.0	0.1	0.1	0.0	0.0	0.0	0.2
Total	2.0	0.1	-1.6	1.5	0.3	-0.5	1.9
				2002/2003			
United States	-	2.7	2.9	2.6	1.9	2.9	12.9
United Kingdom	1.3	-	0.3	0.5	-0.1	0.6	2.7
Euro area	4.0	1.0	4.0	0.8	0.3	0.7	10.8
Japan	1.1	0.1	0.2	-	0.1	0.1	1.6
Other OECD Countries	2.8	0.5	1.2	0.4	0.2	0.3	5.5
Emerging Countries	0.3	0.4	0.0	0.1	0.0	0.4	1.2
Total	9.5	4.6	8.7	4.4	2.3	5.0	34.6
				2003/2004			
United States	-	-1.8	-0.8	-0.4	-0.9	-0.6	-4.5
United Kingdom	0.2	-	0.3	-0.1	-0.3	0.0	0.1
Euro area	-0.3	-0.6	-1.2	0.0	-0.3	-0.2	-2.5
Japan	0.2	0.0	0.0	-	0.0	0.0	0.2
Other OECD Countries	-0.2	-0.3	-0.4	-0.1	-0.2	-0.1	-1.3
Emerging Countries	0.1	0.0	-0.1	0.0	0.0	0.0	0.1
Total	0.0	-2.8	-2.2	-0.6	-1.6	-0.8	-8.0
				2004/2005			
United States	-	0.4	-0.2	2.2	0.3	0.7	3.4
United Kingdom	0.8	-	-0.4	0.7	0.2	-0.1	1.2
Euro area	0.4	0.0	-0.7	0.5	0.0	0.1	0.3
Japan	0.1	-0.1	0.0	-	0.0	0.0	-0.1
Other OECD Countries	0.4	0.1	-0.2	0.3	0.0	0.0	0.7
Emerging Countries	0.2	0.0	0.1	0.1	0.0	0.3	0.6
Total	1.9	0.3	-1.4	3.7	0.6	1.1	6.2
				2005/2006			
United States	-	0.5	1.0	-0.5	0.1	0.8	2.0
United Kingdom	1.0	-	0.1	0.0	0.0	0.2	1.4
Euro area	1.7	0.5	1.3	0.2	0.1	0.3	4.1
Japan	0.2	0.1	0.0	-	0.0	0.1	0.5
Other OECD Countries	1.0	0.2	0.4	0.0	0.2	0.2	2.0
Emerging Countries	0.4	-0.2	0.0	0.0	0.0	0.5	0.8
Total	4.4	1.0	2.9	-0.4	0.5	2.2	10.7
				2006/2007			
United States	-	-1.1	-1.2	-0.3	-0.5	-0.3	-3.4
United Kingdom	-0.5	-	-0.8	-0.3	-0.2	0.0	-1.8
Euro area	-1.2	-0.7	-2.3	-0.4	-0.3	0.0	-4.9
Japan	-0.4	-0.1	-0.1	-	0.0	0.0	-0.6
Other OECD Countries	0.6	-0.1	-0.1	0.0	-0.1	0.0	0.3
Emerging Countries	0.4	0.0	0.1	0.1	0.0	0.1	0.8
Total	-1.1	-2.1	-4.4	-0.8	-1.0	-0.2	-9.6
				2007/2008			
United States	-	-1.6	-3.6	-1.9	-1.9	-2.9	-11.7
United Kingdom	-1.4	-	-0.8	-0.7	-0.3	-0.7	-4.0
Euro area	-2.9	-0.8	-2.9	-1.1	-0.5	-0.9	-9.2
Japan	-0.5	0.0	-0.2	-	-0.1	-0.2	-1.0
Other OECD Countries	-2.1	-0.3	-1.1	-0.3	-0.3	-0.3	-4.4
Emerging Countries	-0.2	0.0	-0.1	0.0	0.0	-0.6	-1.0
Total	-7.1	-2.6	-8.8	-4.1	-3.1	-5.6	-31.3
				2008/2009			
United States	-	9.3	6.2	1.4	4.7	6.0	27.6
United Kingdom	4.3	-	3.1	0.8	1.4	1.1	10.7
Euro area	7.0	4.1	7.9	0.9	1.1	1.7	22.6
Japan	3.6	0.7	0.7	-	0.4	0.4	5.9
Other OECD Countries	8.8	3.0	3.1	0.5	1.3	1.0	17.7
Emerging Countries	2.1	2.4	0.9	0.1	0.1	1.0	6.7
Total	25.8	19.6	21.9	3.7	9.0	11.2	91.2

Table 4: Year 2001

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.3306***	0.6235***	0.0242	0.1035**
	(0.099)	(0.108)	(0.038)	(0.051)
Log distance	-0.1734		-0.8395***	-0.6646***
	(0.150)		(0.078)	(0.085)
Time difference	-0.0502*		0.0847***	0.0141
	(0.028)		(0.015)	(0.017)
Common language	0.3713**	0.1739	0.1947**	0.4491***
	(0.174)	(0.175)	(0.098)	(0.106)
Colony dummy	0.4653*	0.5808**	0.2257	0.4550***
	(0.267)	(0.266)	(0.165)	(0.164)
Tax treaty	0.0335	0.0768	-0.1179	-0.0880
	(0.132)	(0.132)	(0.081)	(0.085)
Currency union dummy	0.1190	-0.1251	0.7517***	0.1726
	(0.224)	(0.229)	(0.165)	(0.158)
Correl. in idiosyncratic GDP	0.1896	0.3788*	0.0701	0.3340***
	(0.207)	(0.203)	(0.118)	(0.127)
Correl. in stock returns	2.6284***	3.7279***		
	(0.593)	(0.795)		
Correl. Growth-stock ret.	0.5543**	-0.2242		
	(0.221)	(0.912)		
Common legal origin	0.2208*	-0.0739		
	(0.129)	(0.130)		
Freedom in the host country	0.1574***	0.1517***	0.1468***	0.1727***
	(0.019)	(0.020)	(0.009)	(0.010)
Constant	-9.3853***	-13.5887***	-2.3249***	-5.0212***
	(1.521)	(1.105)	(0.826)	(0.915)
Observations	861	713	1,702	1,702
R-squared	0.878	0.891	0.795	0.505
		OECD countries		
Log bilateral trade	0.4168***	0.3868***	-0.0279	0.1266**
	(0.094)	(0.079)	(0.036)	(0.050)
Log distance	0.1051		-0.5228***	-0.3962***
	(0.146)		(0.079)	(0.093)
Time difference	-0.0229		0.0275*	0.0150
	(0.027)		(0.015)	(0.018)
Common language	0.4734***	0.2334	0.2982***	0.3928***
	(0.166)	(0.152)	(0.089)	(0.107)
Colony dummy	0.0609	0.2981	0.3435**	0.3942**
	(0.251)	(0.227)	(0.139)	(0.159)
Tax treaty	-0.1320	-0.0559	-0.1975***	-0.1904**
	(0.127)	(0.113)	(0.072)	(0.084)
Currency union dummy	0.5246***	0.3839*	0.1844	0.2166
	(0.201)	(0.198)	(0.137)	(0.146)
Correl. in idiosyncratic GDP	-0.1890	0.0065	0.0289	0.0206
	(0.199)	(0.179)	(0.110)	(0.131)
Correl. in stock returns	0.9410	1.1210		
	(0.599)	(0.743)		
Correl. Growth-stock ret.	0.1632	0.0770		
	(0.220)	(0.908)		
Common legal origin	0.2363*	0.1421		
	(0.122)	(0.120)		
Freedom in the host country	0.2143***	0.2179***	0.1873***	0.1879***
	(0.018)	(0.014)	(0.008)	(0.009)
Constant	-16.4221***	-15.8411***	-6.4588***	-8.2533***
	(1.542)	(0.843)	(0.770)	(0.955)
Observations	685	553	1,219	1,219
R-squared	0.906	0.926	0.906	0.567
		Emerging countries		
Log bilateral trade	-0.0234	1.7029***	0.0789	0.2712***
	(0.345)	(0.419)	(0.048)	(0.087)
Log distance	-1.5258***		-0.0665	-0.3278**
	(0.549)		(0.105)	(0.155)
Time difference	-0.0966		-0.0470**	-0.0282
	(0.086)		(0.019)	(0.025)
Common language	0.4079	-0.0773	-0.0571	0.1305
	(0.511)	(0.568)	(0.125)	(0.167)
Colony dummy	1.8632**	0.8779	1.0340***	0.9527***
	(0.818)	(0.886)	(0.248)	(0.283)
Tax treaty	0.5327	-0.0321	0.0422	0.0989
	(0.402)	(0.444)	(0.107)	(0.145)
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	-0.0747	-0.0761	0.1947	0.3658*
	(0.831)	(0.900)	(0.159)	(0.214)
Correl. in stock returns	0.5822	5.6551*		
	(1.806)	(2.917)		
Correl. Growth-stock ret.	-1.5347	0.3453		
	(0.979)	(1.997)		
Common legal origin	0.6566	-0.4879		
	(0.405)	(0.468)		
Freedom in the host country	0.1352**	-0.0238	0.0578***	0.0557***
	(0.067)	(0.084)	(0.011)	(0.016)
Constant	-1.9341	-9.2153*	-9.2420***	-7.7143***
	(5.566)	(5.484)	(1.155)	(1.573)
Observations	176	160	483	483
R-squared	0.830	0.811	0.780	0.520

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 5: Year 2002

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.4162***	0.7617***	0.0609	0.1615***
	(0.104)	(0.117)	(0.043)	(0.055)
Log distance	-0.1174		-0.7684***	-0.7165***
	(0.155)		(0.087)	(0.096)
Time difference	-0.0774***		0.0662***	0.0366**
	(0.028)		(0.017)	(0.018)
Common language	0.3106*	0.1663	0.2086*	0.3951***
	(0.175)	(0.192)	(0.108)	(0.120)
Colony dummy	0.5999**	0.6665**	0.3874**	0.7702***
	(0.269)	(0.289)	(0.175)	(0.183)
Tax treaty	-0.0048	0.0619	-0.0976	0.0308
	(0.139)	(0.150)	(0.085)	(0.094)
Currency union dummy	0.1851	-0.0814	0.8085***	0.4768***
	(0.221)	(0.241)	(0.172)	(0.171)
Correl. in idiosyncratic GDP	0.2530	0.4340**	-0.0463	0.2229*
	(0.197)	(0.218)	(0.117)	(0.129)
Correl. in stock returns	1.6040**	2.6438**		
	(0.665)	(1.038)		
Correl. Growth-stock ret.	0.3043	-0.8312		
	(0.237)	(0.860)		
Common legal origin	0.4004***	0.2331		
	(0.130)	(0.147)		
Freedom in the host country	0.3800***	0.1318***	0.1444***	0.1719***
	(0.035)	(0.023)	(0.009)	(0.011)
Constant	-27.3493***	-12.8903***	-3.7271***	-5.5259***
	(1.902)	(1.345)	(0.974)	(1.128)
Observations	838	706	1,752	1,752
R-squared	0.874	0.869	0.769	0.478
		OECD countries		
Log bilateral trade	0.4859***	0.6793***	0.1387***	0.3013***
	(0.098)	(0.100)	(0.044)	(0.056)
Log distance	0.0126		-0.5455***	-0.4306***
	(0.145)		(0.094)	(0.103)
Time difference	-0.0363		0.0363**	0.0295
	(0.027)		(0.018)	(0.020)
Common language	0.4397***	0.2155	0.3699***	0.4265***
	(0.161)	(0.176)	(0.103)	(0.120)
Colony dummy	0.1751	0.2754	0.2289	0.5410***
	(0.241)	(0.258)	(0.155)	(0.171)
Tax treaty	-0.1124	-0.0844	-0.1978**	-0.0684
	(0.127)	(0.134)	(0.080)	(0.090)
Currency union dummy	0.6704***	0.6491***	-0.0780	0.3798**
	(0.192)	(0.216)	(0.152)	(0.154)
Correl. in idiosyncratic GDP	-0.0461	0.0615	0.0165	-0.0002
	(0.182)	(0.199)	(0.116)	(0.131)
Correl. in stock returns	-0.2876	-1.8099*		
	(0.646)	(1.056)		
Correl. Growth-stock ret.	0.0474	0.4697		
	(0.228)	(0.815)		
Common legal origin	0.2752**	0.1852		
	(0.119)	(0.137)		
Freedom in the host country	0.3329***	0.2048***	0.1877***	0.1957***
	(0.026)	(0.018)	(0.009)	(0.011)
Constant	-24.3458***	-15.1709***	-8.0066***	-9.9832***
	(1.440)	(1.071)	(0.977)	(1.154)
Observations	653	531	1,205	1,205
R-squared	0.912	0.906	0.893	0.579
		Emerging countries		
Log bilateral trade	0.1912	1.5665***	0.0537	
	(0.348)	(0.422)	(0.055)	
Log distance	-1.1795**		-0.0403	
	(0.586)		(0.116)	
Time difference	-0.1137		-0.0696***	
	(0.096)		(0.020)	
Common language	0.6224	0.0997	0.1073	
	(0.531)	(0.585)	(0.141)	
Colony dummy	2.1015**	1.4470	1.3656***	
	(0.861)	(0.877)	(0.273)	
Tax treaty	0.0304	-0.4540	-0.0905	
	(0.451)	(0.482)	(0.118)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	1.0727	1.1699	0.0679	
	(0.883)	(0.947)	(0.152)	
Correl. in stock returns	1.3908	7.2659*		
	(2.293)	(3.775)		
Correl. Growth-stock ret.	-0.8449	-0.8618		
	(0.956)	(2.268)		
Common legal origin	0.5086	-0.0233		
	(0.417)	(0.470)		
Freedom in the host country	0.2462***	0.0422	0.0566**	
	(0.091)	(0.080)	(0.026)	
Constant	-12.1723*	-13.2368**	-9.1677***	
	(6.652)	(5.388)	(2.054)	
Observations	185	175	547	
R-squared	0.796	0.779	0.692	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 6: Year 2003

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.4661***	0.7371***	0.0357	
	(0.095)	(0.112)	(0.036)	
Log distance	-0.0598		-0.7664***	
	(0.146)		(0.075)	
Time difference	-0.0468*		0.0590***	
	(0.026)		(0.015)	
Common language	0.2598*	0.1117	0.2347**	
	(0.157)	(0.162)	(0.091)	
Colony dummy	0.2819	0.3767	0.2486	
	(0.252)	(0.256)	(0.157)	
Tax treaty	0.0504	0.1073	-0.1624**	
	(0.138)	(0.138)	(0.077)	
Currency union dummy	0.2962	0.1605	0.6152***	
	(0.203)	(0.209)	(0.152)	
Correl. in idiosyncratic GDP	0.0541	0.1723	0.1830*	
	(0.163)	(0.176)	(0.096)	
Correl. in stock returns	1.5809**	1.0516		
	(0.650)	(1.097)		
Correl. Growth-stock ret.	0.2876	0.4029		
	(0.237)	(0.443)		
Common legal origin	0.3640***	0.1990		
	(0.118)	(0.130)		
Freedom in the host country	0.1796***	0.1481***	0.1936***	
	(0.021)	(0.016)	(0.015)	
Constant	-12.4329***	-12.8113***	-6.7336***	
	(1.392)	(0.999)	(0.940)	
Observations	945	812	2,149	
R-squared	0.887	0.888	0.783	
		OECD countries		
Log bilateral trade	0.4434***	0.5577***	0.0957**	
	(0.089)	(0.100)	(0.037)	
Log distance	0.0940		-0.5088***	
	(0.136)		(0.084)	
Time difference	-0.0357		0.0260	
	(0.025)		(0.017)	
Common language	0.3057**	0.1515	0.2336***	
	(0.144)	(0.144)	(0.088)	
Colony dummy	-0.0515	0.0648	0.2361	
	(0.226)	(0.220)	(0.144)	
Tax treaty	-0.1486	-0.0878	-0.1381*	
	(0.127)	(0.123)	(0.074)	
Currency union dummy	0.5137***	0.4620***	-0.2287*	
	(0.177)	(0.176)	(0.139)	
Correl. in idyosincratic GDP	-0.0894	0.0316	0.3269***	
	(0.150)	(0.155)	(0.094)	
Correl. in stock returns	-0.0720	-1.4431		
	(0.643)	(1.156)		
Correl. Growth-stock ret.	-0.3616	-0.6455		
	(0.231)	(0.392)		
Common legal origin	0.3512***	0.2918**		
	(0.107)	(0.115)		
Freedom in the host country	0.4690***	0.1954***	0.2142***	
	(0.031)	(0.014)	(0.015)	
Constant	-34.9817***	-13.1577***	-9.7160***	
	(1.543)	(0.805)	(0.912)	
Observations	737	613	1,571	
R-squared	0.921	0.921	0.884	
		Emerging countries		
Log bilateral trade	0.0291	1.6076***	0.0515	
	(0.310)	(0.387)	(0.052)	
Log distance	-0.9311*		-0.1068	
	(0.531)		(0.118)	
Time difference	-0.1581*		-0.0708***	
	(0.087)		(0.020)	
Common language	0.7849	0.7725	0.0777	
	(0.496)	(0.570)	(0.137)	
Colony dummy	1.9949**	1.2394	1.0391***	
	(0.791)	(0.875)	(0.262)	
Tax treaty	0.5127	0.4211	-0.0707	
	(0.437)	(0.488)	(0.117)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	-0.1632	-0.0890	-0.0148	
	(0.771)	(0.912)	(0.145)	
Correl. in stock returns	-0.0536	-0.4369		
	(2.128)	(3.642)		
Correl. Growth-stock ret.	0.5129	4.2035*		
	(1.004)	(2.312)		
Common legal origin	0.4880	-0.2311		
	(0.382)	(0.447)		
Freedom in the host country	0.3232***	0.0293	0.0736***	
	(0.087)	(0.101)	(0.027)	
Constant	-23.0263***	-14.7201**	-9.5031***	
	(6.513)	(7.168)	(2.115)	
Observations	208	199	578	
R-squared	0.802	0.750	0.706	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 7: Year 2004

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.3584***	0.6519***	0.0141	
	(0.090)	(0.093)	(0.034)	
Log distance	0.0585		-0.7234***	
	(0.139)		(0.070)	
Time difference	-0.0981***		0.0561***	
	(0.024)		(0.014)	
Common language	0.3553**	0.2379	0.1813**	
	(0.153)	(0.156)	(0.085)	
Colony dummy	0.5243**	0.5312**	0.2980*	
	(0.242)	(0.248)	(0.156)	
Tax treaty	0.0794	0.1694	-0.0183	
	(0.136)	(0.136)	(0.075)	
Currency union dummy	0.3882*	0.4043**	0.8027***	
	(0.199)	(0.200)	(0.151)	
Correl. in idiosyncratic GDP	0.0645	0.1009	0.2311**	
	(0.161)	(0.168)	(0.094)	
Correl. in stock returns	1.4197**	0.8976		
	(0.620)	(0.907)		
Correl. Growth-stock ret.	-0.0170	0.4032		
	(0.231)	(0.377)		
Common legal origin	0.3646***	0.2381**		
	(0.113)	(0.119)		
Freedom in the host country	0.2098***	0.1784***	0.1917***	
	(0.018)	(0.014)	(0.015)	
Constant	-14.6276***	-14.6393***	-7.3998***	
	(1.346)	(0.857)	(0.935)	
Observations	1,009	883	2,280	
R-squared	0.880	0.885	0.768	
		OECD countries		
Log bilateral trade	0.2929***	0.4756***	0.1346***	
	(0.087)	(0.088)	(0.036)	
Log distance	0.0638		-0.3412***	
	(0.132)		(0.079)	
Time difference	-0.0598**		0.0095	
	(0.024)		(0.015)	
Common language	0.4159***	0.2702*	0.2329***	
	(0.144)	(0.141)	(0.081)	
Colony dummy	0.0820	0.1343	0.1491	
	(0.219)	(0.215)	(0.139)	
Tax treaty	-0.0442	0.0868	-0.1982***	
	(0.130)	(0.124)	(0.074)	
Currency union dummy	0.6319***	0.7148***	-0.0707	
	(0.176)	(0.171)	(0.134)	
Correl. in idiosyncratic GDP	-0.0769	-0.1354	0.2275**	
	(0.153)	(0.152)	(0.093)	
Correl. in stock returns	0.1782	-0.5625		
	(0.629)	(1.027)		
Correl. Growth-stock ret.	-0.7894***	-0.7003**		
	(0.233)	(0.330)		
Common legal origin	0.3834***	0.3277***		
	(0.106)	(0.108)		
Freedom in the host country	0.2467***	0.2348***	0.2023***	
	(0.017)	(0.014)	(0.014)	
Constant	-16.4351***	-16.5112***	-10.8151***	
	(1.274)	(0.799)	(0.871)	
Observations	754	642	1,519	
R-squared	0.912	0.916	0.893	
		Emerging countries		
Log bilateral trade	0.1738	1.4530***	0.0321	
	(0.247)	(0.264)	(0.043)	
Log distance	-0.3992		-0.0855	
	(0.470)		(0.099)	
Time difference	-0.1665**		-0.0685***	
	(0.069)		(0.018)	
Common language	0.5741	0.6561	0.0186	
	(0.433)	(0.471)	(0.115)	
Colony dummy	2.1697***	1.3911*	1.4782***	
	(0.723)	(0.782)	(0.242)	
Tax treaty	0.4310	0.2137	0.0175	
	(0.365)	(0.398)	(0.099)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	0.4821	0.6680	0.0144	
	(0.543)	(0.606)	(0.122)	
Correl. in stock returns	1.2298	-1.3172		
	(1.676)	(2.281)		
Correl. Growth-stock ret.	1.1885	3.8755**		
	(0.795)	(1.750)		
Common legal origin	0.3057	-0.1907		
	(0.310)	(0.345)		
Freedom in the host country	0.1904***	0.0798*	0.0778***	
	(0.048)	(0.043)	(0.025)	
Constant	-17.2515***	-18.4813***	-10.0855***	
	(3.563)	(3.193)	(1.954)	
Observations	255	241	761	
R-squared	0.802	0.768	0.665	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved)

Table 8: Year 2005

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.2899***	0.8006***	0.0701**	
	(0.090)	(0.088)	(0.031)	
Log distance	-0.1441		-0.6599***	
	(0.141)		(0.067)	
Time difference	-0.0982***		0.0459***	
	(0.025)		(0.013)	
Common language	0.3058*	0.2790*	0.1835**	
	(0.158)	(0.163)	(0.080)	
Colony dummy	0.3310	0.1038	0.4456***	
	(0.253)	(0.259)	(0.153)	
Tax treaty	0.4234***	0.4834***	-0.1244*	
	(0.141)	(0.142)	(0.072)	
Currency union dummy	0.4500**	0.2991	0.6067***	
	(0.206)	(0.210)	(0.142)	
Correl. in idiosyncratic GDP	-0.1402	0.0189	0.3654***	
	(0.168)	(0.176)	(0.085)	
Correl. in stock returns	1.0510*	0.4417		
	(0.627)	(0.804)		
Correl. Growth-stock ret.	-0.1126	-0.3131		
	(0.240)	(0.456)		
Common legal origin	0.5060***	0.3172***		
	(0.117)	(0.122)		
Freedom in the host country	0.2169***	0.1668***	0.1832***	
	(0.016)	(0.013)	(0.012)	
Constant	-13.1043***	-14.9854***	-7.5956***	
	(1.401)	(0.839)	(0.814)	
Observations	1,020	1,001	2,314	
R-squared	0.880	0.877	0.797	
		OECD countries		
Log bilateral trade	0.2907***	0.5525***	0.0740**	0.2522***
	(0.094)	(0.088)	(0.031)	(0.047)
Log distance	-0.0667		-0.4698***	-0.3407***
	(0.146)		(0.072)	(0.093)
Time difference	-0.0504*		0.0315**	0.0106
	(0.028)		(0.014)	(0.019)
Common language	0.3186**	0.3269**	0.1933**	0.3781***
	(0.160)	(0.163)	(0.077)	(0.104)
Colony dummy	-0.0060	-0.1125	0.3232**	0.4099**
	(0.245)	(0.244)	(0.139)	(0.166)
Tax treaty	0.1148	0.1935	-0.1069	-0.0129
	(0.145)	(0.143)	(0.071)	(0.091)
Currency union dummy	0.7537***	0.7645***	0.0102	0.2514*
	(0.193)	(0.198)	(0.129)	(0.142)
Correl. in idiosyncratic GDP	-0.2318	-0.2040	0.2541***	0.1633
	(0.172)	(0.171)	(0.088)	(0.107)
Correl. in stock returns	-0.3084	-1.0299		
	(0.672)	(0.875)		
Correl. Growth-stock ret.	-0.9122***	-0.6030		
	(0.263)	(0.511)		
Common legal origin	0.3892***	0.2579**		
	(0.117)	(0.120)		
Freedom in the host country	0.2507***	0.2303***	0.2040***	0.1929***
	(0.017)	(0.014)	(0.009)	(0.010)
Constant	-15.5273***	-16.6838***	-9.7894***	-10.6346***
	(1.431)	(0.796)	(0.818)	(0.989)
Observations	751	735	1,649	1,649
R-squared	0.904	0.905	0.895	0.571
		Emerging countries		
Log bilateral trade	0.1318	1.3029***	0.1120**	
	(0.204)	(0.206)	(0.051)	
Log distance	-0.9979**		-0.1173	
	(0.391)		(0.111)	
Time difference	-0.0824		-0.0742***	
	(0.058)		(0.020)	
Common language	0.2822	0.0554	0.1502	
	(0.388)	(0.417)	(0.129)	
Colony dummy	1.8029***	1.3465**	1.4101***	
	(0.628)	(0.672)	(0.276)	
Tax treaty	1.0901***	0.7468**	-0.0944	
	(0.318)	(0.347)	(0.115)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	-0.0879	0.1606	-0.1085	
	(0.477)	(0.515)	(0.130)	
Correl. in stock returns	1.3068	1.9397		
	(1.397)	(1.810)		
Correl. Growth-stock ret.	0.3780	0.4628		
	(0.690)	(1.256)		
Common legal origin	0.6823**	0.3828		
	(0.276)	(0.303)		
Freedom in the host country	0.1788***	0.0527	0.1002***	
	(0.036)	(0.034)	(0.028)	
Constant	-10.4018***	-14.5643***	-10.5045***	
	(2.955)	(2.116)	(2.122)	
Observations	269	266	665	
R-squared	0.839	0.813	0.682	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 9: Year 2006

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.2701***	0.9244***	0.0467*	0.3196***
	(0.085)	(0.083)	(0.027)	(0.040)
Log distance	-0.3527***		-0.7342***	-0.4931***
	(0.133)		(0.061)	(0.073)
Time difference	-0.0756***		0.0586***	0.0116
	(0.024)		(0.012)	(0.014)
Common language	0.1607	0.1415	0.1600**	0.3414***
	(0.151)	(0.159)	(0.078)	(0.089)
Colony dummy	0.5546**	0.2875	0.4531***	0.4590***
	(0.243)	(0.250)	(0.145)	(0.148)
Tax treaty	0.4189***	0.4143***	0.0084	0.0192
	(0.135)	(0.138)	(0.068)	(0.078)
Currency union dummy	0.5070**	0.4498**	0.8125***	0.2539*
	(0.199)	(0.205)	(0.139)	(0.138)
Correl. in idiosyncratic GDP	-0.2073	-0.0539	0.3158***	0.3819***
	(0.156)	(0.166)	(0.078)	(0.085)
Correl. in stock returns	1.0020	0.1356		
	(0.618)	(0.734)		
Correl. Growth-stock ret.	0.0300	-0.2667		
	(0.237)	(0.427)		
Common legal origin	0.3467***	0.1198		
	(0.111)	(0.117)		
Freedom in the host country	0.2165***	0.1584***	0.1798***	0.2032***
	(0.015)	(0.013)	(0.009)	(0.010)
Constant	-11.1202***	-14.9162***	-5.7638***	-11.0984***
	(1.362)	(0.802)	(0.830)	(1.025)
Observations	1,061	1,040	2,504	2,504
R-squared	0.883	0.877	0.796	0.506
		OECD countries		
Log bilateral trade	0.3752***	0.5291***	0.1022***	0.3525***
	(0.083)	(0.077)	(0.028)	(0.042)
Log distance	-0.1558		-0.5437***	-0.2718***
	(0.128)		(0.066)	(0.083)
Time difference	0.0010		0.0311**	0.0142
	(0.025)		(0.013)	(0.017)
Common language	0.1822	0.2223	0.1454**	0.2239**
	(0.141)	(0.143)	(0.074)	(0.092)
Colony dummy	0.2538	0.2237	0.4025***	0.4310***
	(0.214)	(0.213)	(0.125)	(0.142)
Tax treaty	0.1654	0.2062	-0.1272*	-0.1309
	(0.130)	(0.128)	(0.067)	(0.082)
Currency union dummy	0.7763***	0.8284***	-0.0263	0.2129*
	(0.171)	(0.172)	(0.120)	(0.129)
Correl. in idiosyncratic GDP	-0.1220	-0.1210	0.2157***	0.0890
	(0.151)	(0.151)	(0.081)	(0.096)
Correl. in stock returns	-0.0349	-0.4359		
	(0.607)	(0.706)		
Correl. Growth-stock ret.	-0.6767***	-0.7532**		
	(0.238)	(0.380)		
Common legal origin	0.1917*	0.1076		
	(0.103)	(0.105)		
Freedom in the host country	0.2341***	0.2254***	0.2232***	0.2401***
	(0.014)	(0.012)	(0.008)	(0.011)
Constant	-14.9243***	-16.6011***	-10.1492***	-15.5139***
	(1.315)	(0.700)	(0.784)	(1.092)
Observations	778	760	1,653	1,653
R-squared	0.918	0.920	0.910	0.579
		Emerging countries		
Log bilateral trade	0.0539	1.5358***	0.0870**	
	(0.220)	(0.215)	(0.038)	
Log distance	-1.3600***		-0.1868*	
	(0.397)		(0.096)	
Time difference	-0.0780		-0.0778***	
	(0.062)		(0.018)	
Common language	0.1129	-0.2263	0.3029**	
	(0.411)	(0.450)	(0.124)	
Colony dummy	1.7502**	0.8833	1.1886***	
	(0.729)	(0.787)	(0.274)	
Tax treaty	1.0340***	0.7007*	-0.1236	
	(0.333)	(0.371)	(0.101)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	0.0510	0.3880	-0.0721	
	(0.494)	(0.532)	(0.115)	
Correl. in stock returns	1.7714	1.2479		
	(1.583)	(1.937)		
Correl. Growth-stock ret.	0.5338	1.0670		
	(0.732)	(1.595)		
Common legal origin	0.3758	-0.0096		
	(0.292)	(0.321)		
Freedom in the host country	0.1705***	0.0133	0.0747***	
	(0.040)	(0.042)	(0.015)	
Constant	-9.0083***	-11.2667***	-9.1996***	
	(3.365)	(2.850)	(1.469)	
Observations	283	280	851	
R-squared	0.805	0.768	0.635	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 10: Year 2007

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.3839***	0.8194***	0.0595**	0.2575***
	(0.085)	(0.084)	(0.026)	(0.040)
Log distance	-0.0112		-0.6663***	-0.5236***
	(0.134)		(0.059)	(0.075)
Time difference	-0.1112***		0.0432***	0.0171
	(0.024)		(0.012)	(0.014)
Common language	0.4859***	0.4608***	0.2482***	0.3683***
	(0.153)	(0.156)	(0.071)	(0.091)
Colony dummy	0.6103**	0.4061*	0.5027***	0.5720***
	(0.242)	(0.246)	(0.133)	(0.149)
Tax treaty	0.4028***	0.4182***	0.0038	0.1748**
	(0.137)	(0.138)	(0.064)	(0.079)
Currency union dummy	0.4241**	0.3123	0.4444***	0.2810**
	(0.203)	(0.206)	(0.132)	(0.141)
Correl. in idiosyncratic GDP	-0.1140	-0.0469	0.3481***	0.3161***
	(0.157)	(0.162)	(0.072)	(0.086)
Correl. in stock returns	1.1834*	0.7745		
	(0.615)	(0.690)		
Correl. Growth-stock ret.	0.0863	-0.3465		
	(0.242)	(0.462)		
Common legal origin	0.1288	-0.0604		
	(0.112)	(0.116)		
Freedom in the host country	0.2399***	0.1942***	0.1860***	0.2038***
	(0.018)	(0.016)	(0.008)	(0.010)
Constant	-17.1033***	-17.6911***	-8.0023***	-11.1694***
Observations	1,098	1,098	2,640	2,640
R-squared	0.879	0.874	0.803	0.490
		OECD countries		
Log bilateral trade	0.3780***	0.4170***	0.0769***	0.3127***
	(0.080)	(0.076)	(0.028)	(0.044)
Log distance	-0.0779		-0.4523***	-0.2642***
	(0.123)		(0.067)	(0.086)
Time difference	0.0132		0.0281**	0.0230
	(0.024)		(0.013)	(0.017)
Common language	0.4197***	0.4291***	0.2411***	0.3295***
	(0.138)	(0.139)	(0.073)	(0.098)
Colony dummy	0.1914	0.1805	0.4847***	0.5593***
	(0.207)	(0.207)	(0.127)	(0.149)
Tax treaty	0.0854	0.0698	-0.0766	0.1226
	(0.129)	(0.127)	(0.068)	(0.085)
Currency union dummy	0.7553***	0.7640***	-0.2097*	0.2192
	(0.168)	(0.168)	(0.124)	(0.134)
Correl. in idiosyncratic GDP	-0.1108	-0.0980	0.2280***	0.0983
	(0.149)	(0.149)	(0.082)	(0.100)
Correl. in stock returns	0.6675	0.5288		
	(0.590)	(0.647)		
Correl. Growth-stock ret.	-0.3428	-0.3618		
	(0.235)	(0.404)		
Common legal origin	0.0897	0.0821		
	(0.101)	(0.103)		
Freedom in the host country	0.2417***	0.2407***	0.2207***	0.2313***
	(0.016)	(0.014)	(0.008)	(0.010)
Constant	-16.9970***	-17.7180***	-11.7857***	-15.4801***
Observations	791	791	1,808	1,808
R-squared	0.921	0.920	0.892	0.577
		Emerging countries		
Log bilateral trade	0.3442	1.8054***	0.1223***	
	(0.235)	(0.262)	(0.043)	
Log distance	-0.6778		-0.1686*	
	(0.417)		(0.101)	
Time difference	-0.1800***		-0.0875***	
	(0.066)		(0.019)	
Common language	0.8659**	0.7317	0.2266*	
	(0.431)	(0.473)	(0.124)	
Colony dummy	1.9580***	1.1457	1.0296***	
	(0.724)	(0.792)	(0.249)	
Tax treaty	0.6330*	0.3559	-0.0941	
	(0.351)	(0.397)	(0.102)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	0.0710	0.8517	0.0782	
	(0.529)	(0.580)	(0.119)	
Correl. in stock returns	0.9361	-1.6053		
	(1.692)	(2.096)		
Correl. Growth-stock ret.	0.2058	3.2853		
	(0.868)	(2.157)		
Common legal origin	-0.0021	-0.5083		
	(0.299)	(0.334)		
Freedom in the host country	0.2332***	0.1581**	0.0557***	
	(0.067)	(0.073)	(0.019)	
Constant	-21.4053***	-21.2140***	-6.9054***	
Observations	307	307	832	
R-squared	0.791	0.744	0.684	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 11: Year 2008

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.2984***	0.8923***	0.0550**	
	(0.098)	(0.089)	(0.027)	
Log distance	-0.2819*		-0.7089***	
	(0.150)		(0.064)	
Time difference	-0.0805***		0.0617***	
	(0.027)		(0.013)	
Common language	0.0797	0.0608	0.2817***	
	(0.172)	(0.177)	(0.079)	
Colony dummy	0.5036*	0.3284	0.4917***	
	(0.269)	(0.273)	(0.148)	
Tax treaty	0.2702	0.3027*	-0.1423**	
	(0.166)	(0.167)	(0.069)	
Currency union dummy	0.4657**	0.3174	0.5238***	
	(0.224)	(0.230)	(0.141)	
Correl. in idiosyncratic GDP	-0.0737	0.0107	0.5053***	
	(0.174)	(0.180)	(0.077)	
Correl. in stock returns	1.1128	0.6539		
	(0.784)	(0.881)		
Correl. Growth-stock ret.	0.2344	0.4908		
	(0.299)	(0.507)		
Common legal origin	0.3440***	0.0812		
	(0.127)	(0.133)		
Freedom in the host country	0.2419***	0.1883***	0.1776***	
	(0.020)	(0.017)	(0.012)	
Constant	-14.3707***	-17.7506***	-7.2943***	
	(1.572)	(1.084)	(0.836)	
Observations	915	915	2,207	
R-squared	0.882	0.876	0.792	
		OECD countries		
Log bilateral trade	0.1534	0.5111***	0.0414	
	(0.098)	(0.087)	(0.031)	
Log distance	-0.4442***		-0.5591***	
	(0.156)		(0.076)	
Time difference	0.0222		0.0297**	
	(0.030)		(0.014)	
Common language	0.1660	0.1787	0.2104**	
	(0.175)	(0.177)	(0.084)	
Colony dummy	-0.0463	-0.1366	0.5469***	
	(0.257)	(0.259)	(0.142)	
Tax treaty	0.0126	-0.0421	-0.1033	
	(0.181)	(0.179)	(0.077)	
Currency union dummy	0.7972***	0.7693***	-0.2227*	
	(0.201)	(0.205)	(0.132)	
Correl. in idiosyncratic GDP	-0.0985	-0.0679	0.3439***	
	(0.180)	(0.182)	(0.088)	
Correl. in stock returns	0.0875	-0.1198		
	(0.860)	(0.967)		
Correl. Growth-stock ret.	-0.3838	0.1645		
	(0.312)	(0.468)		
Common legal origin	0.2658**	0.1518		
	(0.127)	(0.130)		
Freedom in the host country	0.2625***	0.2339***	0.2179***	
	(0.020)	(0.017)	(0.013)	
Constant	-13.2398***	-17.5053***	-10.5045***	
	(1.572)	(0.990)	(0.877)	
Observations	652	652	1,430	
R-squared	0.911	0.908	0.891	
		Emerging countries		
Log bilateral trade	0.5672**	1.7597***	0.1272***	
	(0.264)	(0.263)	(0.038)	
Log distance	-0.4292		-0.1235	
	(0.409)		(0.096)	
Time difference	-0.1473**		-0.0682***	
	(0.071)		(0.018)	
Common language	-0.3748	-0.4205	0.4418***	
	(0.418)	(0.437)	(0.114)	
Colony dummy	2.1288***	1.8365**	0.9180***	
	(0.692)	(0.736)	(0.259)	
Tax treaty	0.3625	0.0572	-0.2660***	
	(0.394)	(0.429)	(0.099)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	-0.2785	0.1635	0.0977	
	(0.609)	(0.625)	(0.113)	
Correl. in stock returns	0.6321	0.8016		
	(1.834)	(2.182)		
Correl. Growth-stock ret.	0.6639	-0.5080		
	(1.007)	(2.058)		
Common legal origin	0.3638	-0.1150		
	(0.311)	(0.336)		
Freedom in the host country	0.2574***	0.1456**	0.1143***	
	(0.065)	(0.066)	(0.018)	
Constant	-22.3106***	-22.4495***	-11.2831***	
	(4.760)	(4.687)	(1.596)	
Observations	263	263	777	
R-squared	0.808	0.788	0.683	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 12: Year 2009

	(1) Panel FE	(2) Panel IV	(3) Panel FE	(4) Tobit
		Full Sample		
Log bilateral trade	0.4026***	0.7348***	0.0967***	0.2683***
	(0.102)	(0.082)	(0.033)	(0.047)
Log distance	-0.1423		-0.5763***	-0.4292***
	(0.148)		(0.074)	(0.086)
Time difference	-0.0560**		0.0340**	0.0098
	(0.028)		(0.015)	(0.017)
Common language	0.2519	0.2434	0.3110***	0.4717***
	(0.169)	(0.170)	(0.093)	(0.105)
Colony dummy	0.7584**	0.6345**	0.6141***	0.6791***
	(0.298)	(0.296)	(0.175)	(0.184)
Tax treaty	0.2371	0.2453	-0.1142	0.1135
	(0.167)	(0.165)	(0.083)	(0.093)
Currency union dummy	0.6166***	0.5457**	0.5015***	0.3431**
	(0.219)	(0.221)	(0.154)	(0.155)
Correl. in idiosyncratic GDP	-0.2455	-0.2228	0.4738***	0.4396***
	(0.178)	(0.180)	(0.089)	(0.096)
Correl. in stock returns	3.2647***	2.8809***		
	(0.860)	(0.982)		
Correl. Growth-stock ret.	0.3918	0.2662		
	(0.359)	(0.466)		
Common legal origin	0.1094	-0.0368		
	(0.128)	(0.129)		
Freedom in the host country	0.1631***	0.1421***	0.2046***	0.2482***
	(0.020)	(0.018)	(0.009)	(0.013)
Constant	-11.2190***	-13.6829***	-9.4660***	-14.5717***
	(1.712)	(1.180)	(0.907)	(1.277)
Observations	863	863	1,983	1,983
R-squared	0.883	0.881	0.804	0.477
		OECD countries		
Log bilateral trade	0.3049***	0.3389***	0.0625	0.3171***
	(0.089)	(0.074)	(0.038)	(0.054)
Log distance	-0.1439		-0.5796***	-0.3224***
	(0.129)		(0.092)	(0.104)
Time difference	0.0398		0.0353*	0.0329
	(0.027)		(0.019)	(0.021)
Common language	0.2195	0.2478*	0.2428**	0.2361**
	(0.146)	(0.146)	(0.104)	(0.119)
Colony dummy	0.0828	0.0657	0.5981***	0.7269***
	(0.244)	(0.242)	(0.181)	(0.188)
Tax treaty	0.0535	0.0220	-0.0175	0.1864*
	(0.157)	(0.155)	(0.100)	(0.109)
Currency union dummy	0.8581***	0.8894***	0.0336	0.2176
	(0.173)	(0.175)	(0.160)	(0.153)
Correl. in idiosyncratic GDP	-0.1693	-0.1533	0.4553***	0.2364**
	(0.159)	(0.158)	(0.111)	(0.117)
Correl. in stock returns	2.2800***	1.8032**		
	(0.785)	(0.898)		
Correl. Growth-stock ret.	0.1290	0.3574		
	(0.362)	(0.479)		
Common legal origin	0.1342	0.1405		
	(0.110)	(0.110)		
Freedom in the host country	0.1634***	0.1697***	0.1792***	0.1852***
	(0.017)	(0.016)	(0.009)	(0.009)
Constant	-10.7404***	-12.1241***	-6.6766***	-10.5513***
	(1.458)	(0.945)	(0.985)	(1.129)
Observations	626	626	1,343	1,343
R-squared	0.923	0.922	0.866	0.556
		Emerging countries		
Log bilateral trade	0.7951***	1.5162***	0.1256**	
	(0.291)	(0.264)	(0.053)	
Log distance	-0.6409		-0.1424	
	(0.475)		(0.115)	
Time difference	-0.0403		-0.0861***	
	(0.076)		(0.021)	
Common language	0.2017	0.1179	0.3751**	
	(0.480)	(0.482)	(0.149)	
Colony dummy	2.6578***	2.1711**	1.3271***	
	(0.875)	(0.874)	(0.328)	
Tax treaty	0.1666	-0.0289	-0.0356	
	(0.414)	(0.439)	(0.121)	
Currency union dummy	0.0000	0.0000	0.0000	
	(0.000)	(0.000)	(0.000)	
Correl. in idiosyncratic GDP	0.2792	0.4289	0.0394	
	(0.583)	(0.590)	(0.131)	
Correl. in stock returns	4.3541*	4.8537*		
	(2.331)	(2.731)		
Correl. Growth-stock ret.	-1.5450	-1.7473		
	(1.198)	(1.885)		
Common legal origin	-0.3528	-0.4616		
	(0.356)	(0.356)		
Freedom in the host country	0.1741***	0.1148*	0.1161***	
	(0.065)	(0.064)	(0.031)	
Constant	-17.9775***	-25.5616***	-12.0097***	
	(5.087)	(4.543)	(2.346)	
Observations	237	237	640	
R-squared	0.797	0.790	0.713	

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Exchange rate variability and valuation effects taken into account as illustrated in section 3
Estimated equation from columns (1) to (4): $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
When no estimates are reported for the Tobit model it means that convergence has been not achieved

Table 13: Dynamic Table - Full Sample

VARIABLES	2001	2002	2003	2004	2005	2006	2007	2008	2009
Log bilateral trade	0.3306***	0.4162***	0.4661***	0.3584***	0.2899***	0.2701***	0.3839***	0.2984***	0.4026***
	(0.099)	(0.104)	(0.095)	(0.090)	(0.090)	(0.085)	(0.085)	(0.098)	(0.102)
Log distance	-0.1734	-0.1174	-0.0598	0.0585	-0.1441	-0.3527***	-0.0112	-0.2819*	-0.1423
	(0.150)	(0.155)	(0.146)	(0.139)	(0.141)	(0.133)	(0.134)	(0.150)	(0.148)
Time difference	-0.0502*	-0.0774***	-0.0468*	-0.0981***	-0.0982***	-0.0756***	-0.1112***	-0.0805***	-0.0560**
	(0.028)	(0.028)	(0.026)	(0.024)	(0.025)	(0.024)	(0.024)	(0.027)	(0.028)
Common language	0.3713**	0.3106*	0.2598*	0.3553**	0.3058*	0.1607	0.4859***	0.0797	0.2519
	(0.174)	(0.175)	(0.157)	(0.153)	(0.158)	(0.151)	(0.153)	(0.172)	(0.169)
Colony dummy	0.4653*	0.5999**	0.2819	0.5243**	0.3310	0.5546**	0.6103**	0.5036*	0.7584**
	(0.267)	(0.269)	(0.252)	(0.242)	(0.253)	(0.243)	(0.242)	(0.269)	(0.298)
Tax treaty	0.0335	-0.0048	0.0504	0.0794	0.4234***	0.4189***	0.4028***	0.2702	0.2371
	(0.132)	(0.139)	(0.138)	(0.136)	(0.141)	(0.135)	(0.137)	(0.166)	(0.167)
Currency union dummy	0.1190	0.1851	0.2962	0.3882*	0.4500**	0.5070**	0.4241**	0.4657**	0.6166***
	(0.224)	(0.221)	(0.203)	(0.199)	(0.206)	(0.199)	(0.203)	(0.224)	(0.219)
Correl. in idiosyncratic GDP	0.1896	0.2530	0.0541	0.0645	-0.1402	-0.2073	-0.1140	-0.0737	-0.2455
	(0.207)	(0.197)	(0.163)	(0.161)	(0.168)	(0.156)	(0.157)	(0.174)	(0.178)
Correl. in stock returns	2.6284***	1.6040**	1.5809**	1.4197**	1.0510*	1.0020	1.1834*	1.1128	3.2647***
	(0.593)	(0.665)	(0.650)	(0.620)	(0.627)	(0.618)	(0.615)	(0.784)	(0.860)
Correl. Growth-stock ret.	0.5543**	0.3043	0.2876	-0.0170	-0.1126	0.0300	0.0863	0.2344	0.3918
	(0.221)	(0.237)	(0.237)	(0.231)	(0.240)	(0.237)	(0.242)	(0.299)	(0.359)
Common legal origin	0.2208*	0.4004***	0.3640***	0.3646***	0.5060***	0.3467***	0.1288	0.3440***	0.1094
	(0.129)	(0.130)	(0.118)	(0.113)	(0.117)	(0.111)	(0.112)	(0.127)	(0.128)
Overall score of freedom in the host country	0.1574***	0.3800***	0.1796***	0.2098***	0.2169***	0.2165***	0.2399***	0.2419***	0.1631***
	(0.019)	(0.035)	(0.021)	(0.018)	(0.016)	(0.015)	(0.018)	(0.020)	(0.020)
Constant	-9.3853***	-27.3493***	-12.4329***	-14.6276***	-13.1043***	-11.1202***	-17.1033***	-14.3707***	-11.2190***
	(1.521)	(1.902)	(1.392)	(1.346)	(1.401)	(1.362)	(1.515)	(1.572)	(1.712)
Observations	861	838	945	1,009	1,020	1,061	1,098	915	863
R-squared	0.878	0.874	0.887	0.880	0.880	0.883	0.879	0.882	0.883

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Estimated equation: $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$

Table 14: Dynamic Table - Oecd Countries

VARIABLES	2001	2002	2003	2004	2005	2006	2007	2008	2009
Log bilateral trade	0.4168***	0.4859***	0.4434***	0.2929***	0.2907***	0.3752***	0.3780***	0.1534	0.3049***
	(0.094)	(0.098)	(0.089)	(0.087)	(0.094)	(0.083)	(0.080)	(0.098)	(0.089)
Log distance	0.1051	0.0126	0.0940	0.0638	-0.0667	-0.1558	-0.0779	-0.4442***	-0.1439
	(0.146)	(0.145)	(0.136)	(0.132)	(0.146)	(0.128)	(0.123)	(0.156)	(0.129)
Time difference	-0.0229	-0.0363	-0.0357	-0.0598**	-0.0504*	0.0010	0.0132	0.0222	0.0398
	(0.027)	(0.027)	(0.025)	(0.024)	(0.028)	(0.025)	(0.024)	(0.030)	(0.027)
Common language	0.4734***	0.4397***	0.3057**	0.4159***	0.3186**	0.1822	0.4197***	0.1660	0.2195
	(0.166)	(0.161)	(0.144)	(0.144)	(0.160)	(0.141)	(0.138)	(0.175)	(0.146)
Colony dummy	0.0609	0.1751	-0.0515	0.0820	-0.0060	0.2538	0.1914	-0.0463	0.0828
	(0.251)	(0.241)	(0.226)	(0.219)	(0.245)	(0.214)	(0.207)	(0.257)	(0.244)
Tax treaty	-0.1320	-0.1124	-0.1486	-0.0442	0.1148	0.1654	0.0854	0.0126	0.0535
	(0.127)	(0.127)	(0.127)	(0.130)	(0.145)	(0.130)	(0.129)	(0.181)	(0.157)
Currency union dummy	0.5246***	0.6704***	0.5137***	0.6319***	0.7537***	0.7763***	0.7553***	0.7972***	0.8581***
	(0.201)	(0.192)	(0.177)	(0.176)	(0.193)	(0.171)	(0.168)	(0.201)	(0.173)
Correl. in idiosyncratic GDP	-0.1890	-0.0461	-0.0894	-0.0769	-0.2318	-0.1220	-0.1108	-0.0985	-0.1693
	(0.199)	(0.182)	(0.150)	(0.153)	(0.172)	(0.151)	(0.149)	(0.180)	(0.159)
Correl. in stock returns	0.9410	-0.2876	-0.0720	0.1782	-0.3084	-0.0349	0.6675	0.0875	2.2800***
	(0.599)	(0.646)	(0.643)	(0.629)	(0.672)	(0.607)	(0.590)	(0.860)	(0.785)
Correl. Growth-stock ret.	0.1632	0.0474	-0.3616	-0.7894***	-0.9122***	-0.6767***	-0.3428	-0.3838	0.1290
	(0.220)	(0.228)	(0.231)	(0.233)	(0.263)	(0.238)	(0.235)	(0.312)	(0.362)
Common legal origin	0.2363*	0.2752**	0.3512***	0.3834***	0.3892***	0.1917*	0.0897	0.2658**	0.1342
	(0.122)	(0.119)	(0.107)	(0.106)	(0.117)	(0.103)	(0.101)	(0.127)	(0.110)
Overall score of freedom in the host country	0.2143***	0.3329***	0.4690***	0.2467***	0.2507***	0.2341***	0.2417***	0.2625***	0.1634***
	(0.018)	(0.026)	(0.031)	(0.017)	(0.017)	(0.014)	(0.016)	(0.020)	(0.017)
Constant	-16.4221***	-24.3458***	-34.9817***	-16.4351***	-15.5273***	-14.9243***	-16.9970***	-13.2398***	-10.7404***
	(1.542)	(1.440)	(1.543)	(1.274)	(1.431)	(1.315)	(1.325)	(1.572)	(1.458)
Observations	685	653	737	754	751	778	791	652	626
R-squared	0.906	0.912	0.921	0.912	0.904	0.918	0.921	0.911	0.923

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Estimated equation: $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$

Table 15: Dynamic Table - Emerging Markets

VARIABLES	2001	2002	2003	2004	2005	2006	2007	2008	2009
Log bilateral trade	-0.0234	0.1912	0.0291	0.1738	0.1318	0.0539	0.3442	0.5672**	0.7951***
	(0.345)	(0.348)	(0.310)	(0.247)	(0.204)	(0.220)	(0.235)	(0.264)	(0.291)
Log distance	-1.5258***	-1.1795**	-0.9311*	-0.3992	-0.9979**	-1.3600***	-0.6778	-0.4292	-0.6409
	(0.549)	(0.586)	(0.531)	(0.470)	(0.391)	(0.397)	(0.417)	(0.409)	(0.475)
Time difference	-0.0966	-0.1137	-0.1581*	-0.1665**	-0.0824	-0.0780	-0.1800***	-0.1473**	-0.0403
	(0.086)	(0.096)	(0.087)	(0.069)	(0.058)	(0.062)	(0.066)	(0.071)	(0.076)
Common language	0.4079	0.6224	0.7849	0.5741	0.2822	0.1129	0.8659**	-0.3748	0.2017
	(0.511)	(0.531)	(0.496)	(0.433)	(0.388)	(0.411)	(0.431)	(0.418)	(0.480)
Colony dummy	1.8632**	2.1015**	1.9949**	2.1697***	1.8029***	1.7502**	1.9580***	2.1288***	2.6578***
	(0.818)	(0.861)	(0.791)	(0.723)	(0.628)	(0.729)	(0.724)	(0.692)	(0.875)
Tax treaty	0.5327	0.0304	0.5127	0.4310	1.0901***	1.0340***	0.6330*	0.3625	0.1666
	(0.402)	(0.451)	(0.437)	(0.365)	(0.318)	(0.333)	(0.351)	(0.394)	(0.414)
Currency union dummy	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Correl. in idiosyncratic GDP	-0.0747	1.0727	-0.1632	0.4821	-0.0879	0.0510	0.0710	-0.2785	0.2792
	(0.831)	(0.883)	(0.771)	(0.543)	(0.477)	(0.494)	(0.529)	(0.609)	(0.583)
Correl. in stock returns	0.5822	1.3908	-0.0536	1.2298	1.3068	1.7714	0.9361	0.6321	4.3541*
	(1.806)	(2.293)	(2.128)	(1.676)	(1.397)	(1.583)	(1.692)	(1.834)	(2.331)
Correl. Growth-stock ret.	-1.5347	-0.8449	0.5129	1.1885	0.3780	0.5338	0.2058	0.6639	-1.5450
	(0.979)	(0.956)	(1.004)	(0.795)	(0.690)	(0.732)	(0.868)	(1.007)	(1.198)
Common legal origin	0.6566	0.5086	0.4880	0.3057	0.6823**	0.3758	-0.0021	0.3638	-0.3528
	(0.405)	(0.417)	(0.382)	(0.310)	(0.276)	(0.292)	(0.299)	(0.311)	(0.356)
Overall score of freedom in the host country	0.1352**	0.2462***	0.3232***	0.1904***	0.1788***	0.1705***	0.2332***	0.2574***	0.1741***
	(0.067)	(0.091)	(0.087)	(0.048)	(0.036)	(0.040)	(0.067)	(0.065)	(0.065)
Constant	-1.9341	-12.1723*	-23.0263***	-17.2515***	-10.4018***	-9.0083***	-21.4053***	-22.3106***	-17.9775***
	(5.566)	(6.652)	(6.513)	(3.563)	(2.955)	(3.365)	(5.220)	(4.760)	(5.087)
Observations	176	185	208	255	269	283	307	263	237
R-squared	0.830	0.796	0.802	0.802	0.839	0.805	0.791	0.808	0.797

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Dependent variable: equity holdings of source country i in host country j (x_{ij}) measured in tens of billion of U.S. dollars
Estimated equation: $\log(x_{ij}) = \phi_i + \phi_j + \beta Z_{ij} + \epsilon_{ij}$

Table 16: 2001-2009 Panel estimates

VARIABLES	(1) Panel FE	(2) Panel FE	(3) Tobit	(4) Tobit	(5) Probit	(6) Probit
			Full Sample			
Log bilateral trade	0.2861***	0.3185***	0.7586***	0.7754***	0.0457***	0.0469***
	(0.055)	(0.055)	(0.010)	(0.010)	(0.002)	(0.002)
Correl. in idiosyncratic GDP	-0.2972***	-0.3309***	-0.2715***	-0.1924***	-0.0073	-0.0011
	(0.086)	(0.087)	(0.051)	(0.050)	(0.009)	(0.009)
Tax treaty	0.0061	0.0034	0.2949***	0.3860***	0.0987***	0.1004***
	(0.089)	(0.089)	(0.038)	(0.038)	(0.006)	(0.006)
Correl. in stock returns	-0.7227**	-0.7632***	5.1106***	4.3438***	0.4401***	0.3837***
	(0.282)	(0.281)	(0.096)	(0.103)	(0.016)	(0.016)
Correl. growth-stock return	0.2148	0.2235*	0.1051*	0.1910***	-0.0300***	-0.0252***
	(0.132)	(0.132)	(0.055)	(0.054)	(0.007)	(0.007)
Freedom in the host country		0.0279***		0.0327***		0.0024***
		(0.007)		(0.002)		(0.000)
Constant	-5.7550***	-7.7373***	-8.5580***	-10.4575***		
	(0.184)	(0.492)	(0.065)	(0.131)		
Observations	10835	10835	13229	13229	13438	13438
R-squared	0.094	0.097	0.219	0.225	0.343	0.348
			OECD countries			
Log bilateral trade	0.3069***	0.3229***	0.7664***	0.7945***	0.0217***	0.0220***
	(0.060)	(0.059)	(0.011)	(0.011)	(0.001)	(0.001)
Correl. in idiosyncratic GDP	-0.1574**	-0.1813**	-0.1492***	-0.0666	0.0020	0.0032
	(0.079)	(0.081)	(0.058)	(0.056)	(0.007)	(0.007)
Tax treaty	0.0897	0.0874	0.0750	0.2750***	0.0446***	0.0469***
	(0.088)	(0.088)	(0.046)	(0.046)	(0.005)	(0.005)
Correl. in stock returns	-0.8968***	-0.9204***	5.3078***	4.0995***	0.2869***	0.2623***
	(0.302)	(0.303)	(0.105)	(0.116)	(0.012)	(0.013)
Correl. growth-stock return	0.3220**	0.3297**	0.4185***	0.4714***	-0.0235***	-0.0229***
	(0.153)	(0.153)	(0.059)	(0.058)	(0.005)	(0.005)
Freedom in the host country		0.0119*		0.0433***		0.0008***
		(0.007)		(0.002)		(0.000)
Constant	-4.9823***	-5.8219***	-7.9142***	-10.6443***		
	(0.208)	(0.496)	(0.071)	(0.146)		
Observations	7567	7567	8623	8623	8766	8766
R-squared	0.109	0.110	0.253	0.264	0.363	0.364
			Emerging countries			
Log bilateral trade	0.1776	0.2269**	0.6061***	0.6114***	0.0967***	0.1003***
	(0.114)	(0.114)	(0.013)	(0.013)	(0.004)	(0.004)
Correl. in idiosyncratic GDP	-0.0198	0.1247	-0.5364***	-0.4206***	-0.0336	-0.0063
	(0.307)	(0.305)	(0.067)	(0.066)	(0.022)	(0.022)
Tax treaty	-0.2240	-0.2123	-0.1162**	-0.1291***	0.1720***	0.1558***
	(0.224)	(0.224)	(0.047)	(0.046)	(0.014)	(0.014)
Correl. in stock returns	0.6294	0.4688	2.7916***	2.2589***	0.6493***	0.5280***
	(0.559)	(0.553)	(0.143)	(0.145)	(0.044)	(0.045)
Correl. growth-stock return	-0.2281	-0.2965	-0.1713**	-0.0042	-0.0126	0.0189
	(0.259)	(0.261)	(0.080)	(0.080)	(0.021)	(0.021)
Freedom in the host country		0.0702***		0.0325***		0.0075***
		(0.018)		(0.002)		(0.001)
Constant	-7.8598***	-12.8549***	-8.4242***	-10.7188***		
	(0.342)	(1.320)	(0.096)	(0.183)		
Observations	3268	3268	4606	4606	4672	4672
R-squared	0.135	0.141	0.195	0.207	0.332	0.349

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Estimated equations: $\log(x_{ij}) = \phi_{ij} + \beta Z_{ij} + \epsilon_{ij}$
Dependent variable in regressions (3) and (4) is: $\log(x_{ij} + 0.001)$
Dependent variable in regressions (5) and (6) is a binary variable taking value 1 if $x_{ij} > 0$ and zero otherwise
Columns (5) and (6) report marginal effects

Table 17: Degree of risk sharing versus correlation of idyiosincratic GDP

		A) All shocks **OECD** Inflows	B) Positive shocks **OECD** Inflows	C) Negative shocks **OECD** Inflows
Correlation coefficient		-0.07	-0.05	-0.01
		[0.76]	[0.82]	[0.95]
Spearman's rank correlation coefficient		-0.03	-0.05	-0.18
		[0.91]	[0.82]	[0.42]
Kendall's tau rank correlation coefficient		-0.03	-0.04	-0.11
		[0.87]	[0.82]	[0.50]
country	avg corr GDP^{id}	%risk shared	%risk shared	%risk shared
TUR	-0.13	5.16	12.10	2.40
CHL	-0.07	-0.10	4.57	-2.59
ISR	-0.03	-0.95	0.02	-1.58
ISL	0.05	-15.32	-19.67	-11.19
US	0.09	-5.89	-3.30	-7.99
CHE	0.10	-5.67	-9.89	-3.27
AUS	0.12	-8.44	-41.06	-1.30
KOR	0.13	0.29	2.17	-0.58
IRL	0.15	-19.79	20.14	-80.91
NLD	0.17	16.14	9.48	24.69
GBR	0.19	19.33	24.69	17.73
SWE	0.19	-11.60	1.22	-18.64
FIN	0.20	-3.47	4.32	-6.19
NOR	0.25	-6.91	-13.88	-3.66
DNK	0.28	-0.21	1.78	-1.55
AUT	0.34	3.88	1.33	5.31
GER	0.36	-0.47	4.22	-6.23
CAN	0.36	-4.61	-10.72	-0.71
ITA	0.40	-1.41	5.75	-6.26
FRA	0.40	-14.70	-14.98	-14.58
PRT	0.43	0.11	6.91	-5.26
ESP	0.48	-5.27	-5.18	-5.33
		A) All shocks **EMU** Inflows	B) Positive shocks **EMU** Inflows	C) Negative shocks **EMU** Inflows
Correlation coefficient		-0.47	-0.75	0.19
		[0.20]	[0.02]	[0.62]
Spearman's rank correlation coefficient		-0.43	-0.83	-0.07
		[0.24]	[0.01]	[0.86]
Kendall's tau rank correlation coefficient		-0.33	-0.67	-0.11
		[0.25]	[0.02]	[0.75]
country	avg corr GDP^{id}	%risk shared	%risk shared	%risk shared
IRL	0.15	-13.38	20.71	-61.61
NLD	0.17	26.62	66.82	1.69
FIN	0.20	-1.28	12.27	-4.87
AUT	0.34	10.78	24.22	-5.11
GER	0.36	-2.43	14.37	-23.15
ITA	0.40	-20.78	-21.59	-20.43
FRA	0.40	-34.77	-24.79	-39.99
PRT	0.43	0.78	11.20	-5.10
ESP	0.48	-15.83	-35.81	-7.99

Significance values in parentheses.
The degree of risk sharing considered refers only to income inflows from abroad.
A negative sign for % risk shared means a dis-smoothing effect of asset income inflows from abroad
GDP^{id} stands for idiosyncratic GDP growth rate calculated as explained in appendix B.